

Draft date: 8/13/23

*2023 Summer National Meeting
Seattle, Washington*

LIFE INSURANCE AND ANNUITIES (A) COMMITTEE

Tuesday, August 15, 2023

9:30 – 10:30 a.m.

Seattle Convention Center—Ballroom 1—Level 5

ROLL CALL

Judith L. French, Chair	Ohio	Eric Dunning	Nebraska
Carter Lawrence, Vice Chair	Tennessee	Scott Kipper	Nevada
Mark Fowler	Alabama	Justin Zimmerman	New Jersey
Barbara D. Richardson	Arizona	Adrienne A. Harris	New York
Karima M. Woods	District of Columbia	Glen Mulready	Oklahoma
Doug Ommen	Iowa	Scott A. White	Virginia
Vicki Schmidt	Kansas	Nathan Houdek	Wisconsin
James J. Donelon	Louisiana		

NAIC Support Staff: Jennifer R. Cook/Jolie H. Matthews

AGENDA

1. Consider Adoption of its July 19 Minutes—*Director Judith L. French (OH)* Attachment One
2. Consider Adoption of the Report of the Life Actuarial (A) Task Force—*Director Judith L. French (OH)* Attachment Two
3. Hear a Presentation on Risks Facing the Life and Annuity Industry—*Steve Hazelbaker (Noble Consulting Services Inc.)* Attachment Three
4. Hear a Presentation on the Unique Life Insurance Needs of the Military—*Shawn Loftus (USAA)*
5. Hear an Update on the Life Workstream of the Special (EX) Committee on Race and Insurance—*Director Judith L. French (OH)*
6. Discuss Any Other Matters Brought Before the Committee—*Director Judith L. French (OH)*
7. Adjournment

Agenda Item #1
Consider Adoption of its July 19 Meeting MinutesMinutes

Draft: 7/20/23

Life Insurance and Annuities (A) Committee
Virtual Meeting
July 19, 2023

The Life Insurance and Annuities (A) Committee met July 19, 2023. The following Committee members participated: Judith L. French, Chair (OH); Carter Lawrence, Vice Chair (TN); Barbara D. Richardson (AZ); Karima M. Woods represented by Phillip Barlow (DC); Doug Ommen (IA); Vicki Schmidt (KS); James J. Donelon (LA); Eric Dunning (NE); Justin Zimmerman (NJ); Adrienne A. Harris represented by Bill Carmello (NY); Scott A. White represented by Craig Chupp (VA) and Nathan Houdek (WI). Also participating was: Rachel Hemphill (TX).

1. Adopted its Spring National Meeting Minutes

Commissioner Lawrence made a motion, seconded by Commissioner Ommen, to adopt the Committee's April 14 minutes (*see NAIC Proceedings – Summer 2023, Life Insurance and Annuities (A) Committee*). The motion passed unanimously.

2. Adopted 2024 Valuation Manual Amendments

Hemphill said the Life Actuarial (A) Task Force adopted 12 amendment proposal forms (APFs) to be effective for the 2024 *Valuation Manual*. She said the APFs fall into three categories: 1) APFs primarily adding documentation in reporting (2022-06, 2022-09, 2023-02, and 2023-04); 2) APFs primarily clarifying requirements or correcting typos (2022-07, 2022-10, 2023-01, and 2023-03); and 3) APFs making more substantive changes to requirements (2021-08, 2022-08, 2023-05, and 2023-07). Hemphill summarized the substance of this third category of APFs.

Hemphill said that APF 2021-08 reduces the reporting lag for VM-51, Experience Reporting Formats, from two years to one year to gather more timely industry mortality data and thus allow more timely creation of mortality tables. She said that APF 2022-08 makes variable annuities that are exempt from complex modeling have reduced VM-G, Appendix G – Corporate Governance Guidance for Principle-Based Reserves, governance requirements, analogous to the treatment already in place for life principle-based reserving. She said APF 2023-05 allows alternate hedge modeling and hedge error reflection for variable annuities indexed credit hedging programs, reflecting the distinct nature of these hedging programs. She said APF 2023-07 removes one of two methods available to companies for calculating part of VM-21, Requirements for Principle-Based Reserves for Variable Annuities, reserve requirements, effective in 2025, due to this method being rarely used. She said only two companies are affected by this change. One company is immediately able to use the more common method, and the other will be able to use the other method by 2025 and is directly working with its domestic regulator to effectuate the change.

Director Richardson made a motion, seconded by Commissioner Lawrence, to adopt the 2024 *Valuation Manual* amendments. The motion passed unanimously.

3. Adopted Amended Life Actuarial (A) Task Force Charges.

Hemphill explained that on June 15, the Life Actuarial (A) Task Force voted to adopt its updated charges, which include: 1) the removal of the Indexed-Linked Variable Annuities (ILVA) Subgroup. Hemphill said the Subgroup completed its charges when the Task Force adopted Actuarial Guideline LIV—Nonforfeiture Requirements for Index-Linked Variable Annuity Products (AG 54); and 2) the addition of the Generator of Economic Scenarios (E/A)

Subgroup and its charges. Hemphill explained that state insurance regulators and interested parties agreed that a formal subgroup was needed to have a robust and proactive approach to future economic scenario generator (ESG) maintenance and updates, including to: a) oversee the ESG governance framework; b) review material generator updates; c) monitor economic conditions for any signal that there is a need for additional generator updates; d) support generator implementation; and e) maintain generator acceptance criteria. Mike Yanacheak (IA) and Pete Weber (OH) have agreed to serve as Subgroup chair and vice chair, respectively.

Carmello made a motion, seconded by Director Dunning, to adopt the amended Life Actuarial (A) Task Force charges. The motion passed unanimously.

4. Discussed Other Matters

Jennifer Cook (NAIC) said that the agenda for the Special (EX) Committee on Race and Insurance Life workstream meeting on July 20 has changed. The Colorado presentation has been postponed to a future meeting. The workstream will still meet to discuss its next steps.

Having no further business, the Life Insurance and Annuities (A) Committee adjourned.

SharePoint/NAIC Support Staff Hub/Committees/A Committee/2023 Summer National Meeting/7-19-23 mtgmin.docx

2Agenda Item #2

Consider Adoption of the Report of the Life Actuarial (A) Task Force
—Director Judith L. French (OH)

2023 Summer National Meeting
Seattle, Washington

LIFE ACTUARIAL (A) TASK FORCE

Friday, August 11, 2023

8:00 a.m. – 4:30 p.m. PT

Saturday, August 12, 2023

8:00 a.m. – 11:00 a.m. PT

Meeting Summary Report

The Life Actuarial (A) Task Force met Aug. 11–12, 2023. During this meeting, the Task Force:

1. Adopted its July 20, June 15, June 1, May 18, May 11, May 4, April 27, April 20, and April 13 minutes, which included the following action:
 - A. Adopted its Spring National Meeting Minutes.
 - B. Exposed the recommendation on *Valuation Manual* (VM)-20, Requirements for Principle-Based Reserves for Life Products, historical and future mortality improvement rates.
 - C. Adopted amended charges to remove the Index-Linked Variable Annuity (ILVA) (A) Subgroup and add the Generator of Economic Scenarios (GOES) (E/A) Subgroup.
 - D. Responded to a referral from the Statutory Accounting Principles (E) Working Group regarding negative interest maintenance reserves (IMR).
 - E. Exposed a template with additional disclosures related to company IMR.
 - F. Adopted amendment proposal form (APF) 2023-07, which removes the Company-Specific Market Path Method (CSMP) from VM-21, Requirements for Principle-Based Reserves for Variable Annuities.
 - G. Adopted APF 2023-05, which revises hedge modeling in VM-21 to address index credit hedging.
 - H. Exposed APF 2023-08, which clarifies the treatment of negative IMR.
 - I. Discussed the GOES field test results in joint session with the Life Risk-Based Capital (E) Working Group.
 - J. Adopted APF 2021-08, which removes the one-year lag in mortality experience reporting in VM-51, Experience Reporting Formats.
 - K. Responded to a referral from the Valuation of Securities (E) Task Force regarding bond risk measures.
 - L. Adopted APF 2023-04, which clarifies company mortality experience disclosures in VM-31, PBR Actuarial Report Requirements for Business Subject to a Principle-Based Valuation.
 - M. Exposed APF 2023-06, which would add a cash surrender value floor to the VM-20 stochastic reserve calculation and change the VM-20 net premium reserve calculation for universal life with secondary guarantee products.
2. Adopted the reports of the Longevity Risk (E/A) Subgroup, the Variable Annuities Capital and Reserve (E/A) Subgroup, the Indexed Universal Life (IUL) Illustration (A) Subgroup, and the Experience Reporting (A) Subgroup.



3. Adopted the report of the VM-22 (A) Subgroup, including its July 26, June 13, May 24, May 10, April 26, April 19, and April 12 minutes. During these meetings, the Subgroup took the following action:
 - A. Exposed the VM-22, Requirements for Principle-Based Reserves for Non-Variable Annuities, standard projection amount (SPA) draft.
 - B. Discussed comments received on the VM-22 draft.
4. Heard a presentation on findings from regulator reviews of company filings for *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53).
5. Heard a presentation from the Society of Actuaries (SOA) on the VM-20 historical and future mortality improvement factors.
6. Exposed APF 2023-09, which adds guidance on the application of historical and future mortality improvement factors in VM-20, for a 45-day public comment period ending Sep. 27.
7. Heard a presentation from the American Academy of Actuaries (Academy) on interest rate acceptance criteria for the GOES.
8. Heard a presentation on the GOES field test C-3 Phase I results.
9. Heard an update from the Interstate Insurance Product Regulation Commission (Compact).
10. Heard an update from the Academy on pre-tax versus post-tax IMR.
11. Heard an update from the SOA on research and education.
12. Heard an update from the Academy Council on Professionalism and Education.
13. Heard an update from the Academy Life Practice Council.
14. Exposed the Generally Recognized Expense Tables (GRETs).
15. Discussed IMR guidance, APF 2023-08, and the IMR template.

Agenda Item #3

Hear a Presentation on Risks Facing the Life and Annuity Industry—Steve Hazelbaker (Noble Consulting Services Inc.)

Agenda Item #3

Hear a Presentation on Risks Facing the Life and Annuity Industry—Steve Hazelbaker (Noble Consulting Services Inc.)



Risks Facing the Life and Annuity Industry

Steve Hazelbaker, CPA, FLMI

President

August 15, 2023

NAIC – Life Insurance and Annuities (A) Committee

Disclaimer

Presentation materials may contain publicly-available NAIC information including, but not limited to, publications, sound practices, presentations and/or working group materials. This presentation is given in the presenter's capacity as a consultant and is based on the presenter's personal knowledge and experiences and may not mirror expectations of specific state insurance departments or the NAIC.

Objectives

1. Identify and increase awareness of certain current and prospective risks facing the life insurance and annuity industry
2. Become more familiar with the contents and value of the NAIC “Solvency Monitoring Risk Alert”

Risks/Concerns Affecting the **Overall Insurance Industry** (Spring 2023; Revised May 15, 2023)

- InsurTech
 - Distribution; Process; Strategy; Group Organization Structure
- Federal and International Regulatory Developments
 - FSOC; FRB; FIO; IAIS Comframe/Holistic Framework
- Private Equity Firm Relationships with Insurers
- Inflation

Risks/Concerns Affecting Life Insurance

- Growth and Trends in the Annuity Market
- Interest Rate Environment

Risks/Concerns Affecting Insurer Investments

- Inflation and Federal Reserve Rate Hikes
- Changing Investment Strategies and Profiles
- Regulatory Guidelines/Concerns

Impact of Rising Rates on U.S. Insurer Investments (NAIC Capital Markets Special Report)

Positive Implications

- Support investment income
- Benefit insurers' spread business
- Less pressure to invest in riskier assets
- Reinvest proceeds of maturing investments at greater yields
- Benefit floating rate structured securities investments

Negative Implications

- Realized and/or unrealized losses due to decline in market values
- Existing mortgage loans at lesser rates could decline in market value, resulting in higher loan-to-value ratios

Other Risk Considerations Affecting Life and Annuity Insurers

- Commercial Real Estate
- Reinsurance
- Talent / Intellectual Capital

m Agenda Item #4

Hear a Presentation on the Unique Life Insurance Needs
of the Military—Shawn Loftus (USAA)

Presentation on the Unique Life Insurance Needs of the
Military—Shawn Loftus (USAA)

Agenda Item #5

Hear an Update on the Life Workstream of the Special (EX)
Committee on Race and Insurance—Director Judith L. French (OH)

AgAgenda Item #6

Discuss Any Other Matters Brought Before the Committee