MEETING MATERIALS PACKET

LIFE ACTUARIAL (A) TASK FORCE (2)
August 3, 2020

NAIC SPRING NATIONAL MEETING
Virtual Meeting
**August 3, 2019**

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## 2020 Summer National Meeting
### Virtual Meeting

**LIFE ACTUARIAL (A) TASK FORCE**

**Monday, August 3, 2020**

3:30 – 5:30 p.m. ET / 2:30 – 4:30 p.m. CT / 1:30 – 3:30 p.m. MT / 12:30 – 2:30 p.m. PT

### ROLL CALL

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<tr>
<td>Kent Sullivan, Chair</td>
<td>Mike Boerner</td>
<td>Texas</td>
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<tr>
<td>Jillian Froment, Vice Chair</td>
<td>Peter Weber</td>
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<tr>
<td>Jim L. Ridling</td>
<td>Steve Ostlund</td>
<td>Alabama</td>
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<tr>
<td>Ricardo Lara</td>
<td>Perry Kupferman</td>
<td>California</td>
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<td>Michael Conway</td>
<td>Eric Unger</td>
<td>Colorado</td>
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<td>Andrew N. Mais</td>
<td>Wanchin Chou</td>
<td>Connecticut</td>
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<tr>
<td>Robert H. Muriel</td>
<td>Bruce Sartain</td>
<td>Illinois</td>
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<td>Stephen W. Robertson</td>
<td>Karl Knable</td>
<td>Indiana</td>
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<td>Doug Ommen</td>
<td>Mike Yanacheak</td>
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<td>Vicki Schmidt</td>
<td>Nicole Boyd</td>
<td>Kansas</td>
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<td>Steve Kelley</td>
<td>Fred Andersen</td>
<td>Minnesota</td>
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<tr>
<td>Chlora Lindley-Myers</td>
<td>William Leung</td>
<td>Missouri</td>
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<tr>
<td>Bruce R. Range</td>
<td>Rhonda Ahrens</td>
<td>Nebraska</td>
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<tr>
<td>Marlene Caride</td>
<td>Seong-min Eom</td>
<td>New Jersey</td>
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<td>Russell Toal</td>
<td>Mark Hendrick</td>
<td>New Mexico</td>
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<td>Linda A. Lacewell</td>
<td>Bill Carmello</td>
<td>New York</td>
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<td>Glen Mulready</td>
<td>Andrew Schallhorn</td>
<td>Oklahoma</td>
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<td>Todd E. Kiser</td>
<td>Tomasz Serbinowski</td>
<td>Utah</td>
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<tr>
<td>Scott A. White</td>
<td>Craig Chupp</td>
<td>Virginia</td>
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NAIC Support Staff: Reggie Mazyck/Eric King

### AGENDA

<table>
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<tr>
<td>2:30 – 2:40 p.m.</td>
<td>1. Consider Adoption of the VM-22 (A) Subgroup Report—Bruce Sartain (IL)</td>
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<td>2:40 – 3:30 p.m.</td>
<td>2. Hear an Update from the American Academy of Actuaries (Academy) Annuity Reserves Work Group—Ben Slutsker (Academy) and John Miller (Academy)</td>
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<td>3:30 – 3:45 p.m.</td>
<td>3. Hear an Update on the Interstate Insurance Product Regulation Commission (Compact)—Jeanne Daharsh (Compact)</td>
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<td>3:45 – 3:55 p.m.</td>
<td>4. Consider Adoption of the Longevity Risk (E/A) Subgroup Report—Rhonda Ahrens (NE)</td>
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<td>3:55 – 4:05 p.m.</td>
<td>5. Consider Adoption of the GI Life Valuation (A) Subgroup Report—Rhonda Ahrens (NE)</td>
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<td>4:05 – 4:15 p.m.</td>
<td>6. Consider Adoption of the Experience Reporting (A) Subgroup Report—Fred Andersen (MN)</td>
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<td>4:15 – 4:30 p.m.</td>
<td>7. Consider Adoption of the IUL Illustration (A) Subgroup Report—Fred Andersen (MN)</td>
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VM-22 (A) Subgroup Minutes
The VM-22 (A) Subgroup of the Life Actuarial (A) Task Force met via conference call July 15, 2020. The following Subgroup members participated: Bruce Sartain, Chair (IL); Jim Jakielo (CT); Mike Yanacheak (IA); Nicole Boyd (KS); William Leung (MO); Rhonda Ahrens (NE); Bill Carmello (NY); Tomasz Serbinowski (UT); and Craig Chupp (VA). Also participating was: Russell Toal (NM); and Rachel Hemphill (TX).

1. Discussed the Revisions to VM-22

Mr. Sartain said the aggregation discussion will be deferred until the American Academy of Actuaries (Academy) Annuity Reserve Work Group (ARWG) finalizes its development of aggregation principles. He presented a list of Subgroup decisions that could be presented to the Life Actuarial (A) Task Force for its consideration. The first item on the list was the inclusion of payout annuities in the principle-based reserving (PBR) framework. He noted that the decision on the location of the PBR requirements for payout annuities will be decided later. The second item was the decision to continue development of an exclusion test for less risky annuities. The third item was the deferral of discussions on whether the PBR requirements for payout annuities are to be applied retroactively. He said that the decision on retroactivity will be tabled until the Subgroup gets closer to a final product. Mr. Carmello said the New York Department of Financial Services (NYDFS) prefers retaining Actuarial Guideline XXXIII, Determining CARVM Reserves for Annuity Contracts with Elective Benefits (AG 33) and Actuarial Guideline XXXV, The Application of the Commissioners Annuity Reserve Method to Equity Indexed Annuities (AG 35). He said those requirements are sufficient and the PBR payout annuities project is not necessary. The Subgroup agreed to forward the three decisions to the Task Force for the its review. Mr. Carmello did not agree with moving the decisions forward. Although not a member of the Subgroup, Commissioner Toal also voiced opposition sending the items to the Task Force.

Mr. Sartain said two issues related to the standard projection amount (SPA) are whether to develop an SPA and, if an SPA is developed, whether it should be a reserve floor or a disclosure item. He said the benefits of having an SPA in the PBR payout annuity framework that would be analogous to the SPA in VM-21, Requirements for Principle-Based Reserves for Variable Annuities, have been discussed. He said there is a thought that having consistency between VM-21 and the PBR payout annuities framework would be a positive step to keep companies from cherry picking requirements for products that straddle the line of variable and fixed identification. He said there is also thinking that supports waiting until field testing has been completed to decide whether the SPA would be a floor or disclosure item. He noted that the Task Force has been charged with reviewing the VM-21 SPA by the end of 2023. He said it may make sense to have the floor/disclosure decision coincide with the VM-21 SPA review. He asked subgroup members if there were any objections to proceeding with the development SPA. Ms. Ahrens said that during the VM-21 deliberations, the Nebraska Department of Insurance spoke against using the SPA as a floor. She said her current stance on the PBR payout annuity framework SPA is that it should be a disclosure item, but she is willing to await completion of the ARWG work before making a final decision. Ms. Ahrens suggested that there could be a set of multiple standard scenarios. Mr. Sartain asked if VM-21 assumptions for the CTE with Prescribed Assumptions (CTEPA) will be periodically revisited. Ms. Hemphill said the intent was to revisit the prescribed assumptions, but no set period for revisiting was determined. She said she finds the VM-21 SPA helpful when doing company reviews and at minimum would like to have the PBR payout annuity SPA as a disclosure item. Ms. Ahrens said her preference would be to only have the PBR stochastic calculations with the cash value as the floor. She said she is not opposed to continuing the work on the SPA but is concerned that there is a presupposition that the SPA will be used as a floor. Ben Slutsker (Academy ARWG) said the Academy does not support using the SPA a floor. He said they would rather have the SPA as a disclosure item. Mr. Sartain asked if subgroup members would like to add the discussion of the SPA to the list of items for Task Force consideration or to continue SPA discussions within the subgroup. The Subgroup voted, 5-4, to keep the SPA discussions at the subgroup level.

Having no further business, the VM-22 (A) Subgroup adjourned.

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The VM-22 (A) Subgroup of the Life Actuarial (A) Task Force met via conference call July 1, 2020. The following Subgroup members participated: Bruce Sartain, Chair and Vincent Tsang (IL); Jim Jakielo (CT); William Leung (MO); Bill Carmello (NY); Tomasz Serbinowski (UT); and Craig Chupp (VA). Also participating were: Pete Weber (OH); John Robinson (MN); and Rachel Hemphill and Karen Jiang (TX).

1. Discussed the Revisions to VM-22

Mr. Sartain said his thought is to move forward with developing a standard projection amount (SPA) for VM-22, Statutory Maximum Valuation Interest Rate for Income Annuities, and wait to decide whether it should be a floor amount or a disclosure item until the SPA development process is nearly complete. He said another decision is whether the VM-22 SPA will use the CTE with Prescribed Assumptions (CTEPA) method or the Company-Specific Market Path (CSMP) method, the two VM-21, Requirements for Principle-Based Reserves for Variable Annuities, methods for determining the SPA. Mr. Sartain said using the SPA would be consistent with the decision to use VM-21 as a model for VM-22, making changes wherever necessary. He noted that a field test, using an initial set of prescribed assumptions which will allow for comparisons of the stochastic reserve, SPA, cash surrender value, and the CARVM reserve, will be conducted in 2021. He said it is premature to make decisions on the SPA before completion of the field test. He said the Life Actuarial (A) Task Force has received a charge requiring review of the VM-21 SPA by the end of 2023. He said the VM-22 SPA could also be reviewed at that time. Also, an SPA floor would be stochastically based, and if it were decided to be a disclosure item that would also be helpful in regulatory reviews. John Robinson asked if a different SPA would be considered for deferred annuities (DAs) and single premium immediate annuities (SPIAs). Mr. Sartain said prescribed assumptions would be developed by product line and modeled according to the aggregation rules.

Ms. Jiang asked whether the prescribed assumptions would be best estimates or margins added to industry averages. Mr. Sartain said his simplistic view is to use best estimate assumptions with a margin. Ben Slutsker (American Academy of Actuaries Annuity Reserves Work Group—ARWG) said the ARWG approach has been to focus on the principle-based reserve (PBR). He said a floor reserve may impede the PBR objective. He said the prescribed assumptions should align with the objectives of the adopted approach. Mr. Sartain asked if VM-21 used a best estimate or a best estimate plus a margin. Ms. Hemphill said VM-21 does not use an explicit margin but adds conservatism when encountering uncertainty. She questioned whether there is double buffering if prescribed assumptions have explicit margins. Mr. Weber said, Oliver-Wyman stated that, while it does not have an explicit margin, the VM-21 reserve requirements are sufficiently conservative. Mr. Sartain said VM-22 should use the VM-21 margin approach. Ms. Hemphill suggested considering ways to quantify the size of the margin. She said having the margin quantified is helpful when conducting reviews. Cindy Barnard (Pacific Life) said developing assumptions for areas in which there are no experience will be challenging.

Mr. Robinson asked for the reasons why the SPA is being considered for VM-22. Mr. Sartain said it is reasonable to consider the SPA as a floor reserve. He said even if it is not used as a floor, disclosing the SPA provides valuable information. Mr. Weber said having a floor for VM-21 and no floor for VM-22 would require clear differentiation of the variable and non-variable annuity products. Mr. Sartain said discussion of the issue will continue on the next subgroup call.

Mr. Sartain said the concept of aggregation is discussed in section 5A of VM-20, Requirements for Principle-Based Reserves for Life Products. Mr. Slutsker said aggregation refers to the grouping of policies with off-setting risks. He said aggregation interacts with lots of elements within the PBR framework, primarily appearing in the CTE-70 calculation, the comparing of reserve components and in exclusion testing. He detailed the uses of aggregation within VM-20 and VM-21. He said the ARWG believes an approach which outlines principles will be best for VM-22. He suggested one principle might be aggregating in a manner consistent with the company’s risk management process. Mr. Slutsker noted that exclusion testing may require prescribed prudent requirements that may utilize knockout criteria, such as not excluding future hedging strategies supporting guaranteed living benefits. He said the ARWG is drafting principles for aggregation for elements other than exclusion testing.

Having no further business, the VM-22 (A) Subgroup adjourned.
The VM-22 (A) Subgroup of the Life Actuarial (A) Task Force met via conference call June 11, 2020. The following Subgroup members participated: Bruce Sartain, Chair and Vincent Tsang (IL); Jim Jakielo (CT); Nicole Boyd (KS); William Leung (MO); Rhonda Ahrens (NE); Bill Carmello (NY); Tomasz Serbinowski (UT) and Craig Chupp (VA). Also participating were: John Robinson (MN); Pete Weber (OH); and Rachel Hemphill (TX).

1. Discussed the Potential Revisions to VM-22

Mr. Sartain said the American Academy of Actuaries (Academy) Annuity Reserve Work Group (ARWG) has been working on principle-based reserve (PBR) developments for non-variable annuities, including possibly using the VM-20, Requirements for Principle-Based Reserves for Life Products, exclusion test concept. John Miller (ARWG) said the ARWG has long thought that an exclusion test was needed for annuities that do not have material risk. He reiterated that the current ARWG thinking is to use the VM-20 concept. Products that pass the exclusion test will use Actuarial Guideline XXXIII, Determining CARVM Reserves for Annuity Contracts with Elective Benefits (AG 33).

Ben Slutsker (ARWG) provided an overview of the three options for the VM-20 exclusion test. He said the first option, the stochastic ratio test, compares the greatest scenario reserve resulting from the 16 prescribed scenarios from the Academy test scenario generator to the baseline scenario reserve to determine if the ratio meets the criteria to pass the test. He said the second option is to compare the PBR results to the reserve amount that would otherwise be held, to determine if the pre-PBR reserve is sufficient. He said the third option for an exclusion test is the certification option. Rachel Hemphill said consideration should be given to having absolute dollar amount criteria in addition to applying the VM-20 stochastic ratio test thresholds for non-variable annuities. She expressed concern about whether contracts with different risk profiles should be aggregated for the stochastic ratio test. Mr. Slutsker said the concerns will be considered as discussions progress. No subgroup members voiced objection to the overall direction of the ARWG VM-22 development efforts.

Mr. Weber provided an overview of the standard projection amount (SPA) used in VM-21, Requirements for Principle-Based Reserves for Variable Annuities. He said the Variable Annuity Issues (E) Working Group considered whether VM-21 needed a floor reserve. He said working group members thought it unwise to remove the guardrail provided by the SPA. He said the working group charged the Life Actuarial (A) Task Force with revisiting the SPA issue within five years to determine whether the hard floor could be replaced by a disclosure requirement.

Mr. Weber said there are two methods for determining the SPA, the company-specific market path (CSMP) and the CTE with prescribed assumptions (CTEPA). He said, once a company chooses a method, domestic commissioner approval is required to change. Mr. Jakielo asked if the VM-21 prescribed assumptions would be a good starting point for development of prescribed assumptions for non-variable annuities. Mr. Weber responded that, while VM-21 might provide a good starting point, the characteristics of variable annuity buyers and non-variable annuity buyer are different. He said the prescribed assumptions must be changed to reflect the differences. Mr. Robinson asked if development of an SPA for VM-22 is within the scope of the ARWG work. Mr. Slutsker said the ARWG is focused on developing the modeled reserve and would prefer the SPA be a disclosure item. Mr. Sartain said it has not been determined if the ARWG would be tasked with development of the SPA. Mr. Carmello said he would like to retain the AG 33 as the floor for non-variable annuities. He said AG 33 works well for products with guaranteed living benefits.

Having no further business, the VM-22 (A) Subgroup adjourned.

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The VM-22 (A) Subgroup of the Life Actuarial (A) Task Force met via conference call May 20, 2020. The following Subgroup members participated: Bruce Sartain, Chair and Vincent Tsang (IL); Jim Jakielo (CT); Mike Yanacheak (IA); Nicole Boyd (KS); Rhonda Ahrens (NE); Bill Carmello (NY); and Tomasz Serbinowski (UT).

1. Discussed the Potential Revisions to VM-22

Mr. Sartain said the Subgroup has two options to consider: 1) to go farther out on the principle-based reserve (PBR) curve by eliminating guardrails present in VM-20, Requirements for Principle-Based Reserves for Life Insurance and VM-21, Requirements for Principle-Based Reserves for Variable Annuities; or 2) to keep the guardrails currently in VM-20 and VM-21 for the moment, followed by a measured approach using a determined timeline to open and revise the guidance. He said an example of the first option would be to allow companies to use more of their own asset experience than they can use in VM-20 and VM-21. Ms. Ahrens said there are some areas in which there should be less prescription and more application of principles. She suggested that policyholder behavior experience is an area where using company specific experience might be feasible. She said she would be less comfortable with allowing a company to use its own asset experience. Mr. Carmello asked if contracts that fail the exclusion test will be subject to a formulaic floor. Mr. Sartain said that is yet to be determined. Mr. Carmello said that in absence of a formulaic floor he favors option 1.

Ben Slutsker (American Academy of Actuaries Annuity Reserves Work Group—ARWG) gave a presentation (Attachment One) on the work of the ARWG. He said the ARWG is working to develop a PBR framework for fixed annuities, with a focus on the stochastic reserve. He expects that once the framework is completed a full presentation will be provided to the Subgroup. The presentation will include assumptions for assets and liabilities, as well as exclusion tests. Mr. Slutsker said the framework design will follow VM-21 and will result in a revised VM-22, Statutory Maximum Valuation Interest Rate for Income Annuities. He said the target effective date for the revised VM-22 is Jan. 2023. He said because products are becoming increasingly similar, the plan is to apply the PBR methodology to fixed deferred annuities, fixed indexed annuities and fixed payout annuities. He said initially the scope will not include guaranteed investment contracts (GICs), funding agreements and stable value contracts, which tend to have more specific windows for optionality, have less longevity risks and are subject to different regulations. Mr. Sartain asked if any Subgroup members are against applying PBR to payout annuities. Mr. Carmello said he supports applying PBR to payout annuities if the current reserve is retained as a floor. Ms. Ahrens said the PBR methodology is designed to prepare for product innovation without requiring regulatory changes. She said, with the increasing demand for longevity risk products possibly leading to greater longevity product innovations, she prefers keeping payout annuities in scope. She said a PBR reserving standard for pension risk transfer business should be considered. Mr. Sartain said pension risk transfer business is expected to be in scope. Mr. Jakielo asked whether the PBR requirements for fixed annuities will reside in VM-22. Mr. Sartain said he envisions the requirements residing in VM-22, but the geography issue is still a matter for discussion.

Ms. Ahrens commented that there should be separate chapters for deferred annuities and payout annuities. Mr. Sartain said the major issue seems to be aggregation. He suggested that the products could reside in the same chapter if there are clear guidelines on how to aggregate the contracts.

Mr. Sartain said the question of whether the PBR requirements for fixed annuities will be retrospective is to be resolved by the Life Actuarial (A) Task Force.

Having no further business, the VM-22 (A) Subgroup adjourned.
Preliminary Framework Elements for Fixed Annuity PBR Power Point
Preliminary Framework Elements for Fixed Annuity PBR

American Academy of Actuaries

Annuity Reserves Work Group (ARWG)

Ben Slutsker, MAAA, FSA
Chairperson, Annuity Reserves Work Group

John R. Miller, MAAA, FSA
Vice Chairperson, Annuity Reserves Work Group

Chris Conrad, MAAA, FSA
Vice Chairperson, Annuity Reserves Work Group

NAIC VM-22 (A) Subgroup Meetings – Summer 2020

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Objective: Propose a new statutory reserve methodology for fixed annuities that uses an actuarial framework to determine reserves based on the level and type of risk inherent in the contract.

ARWG Pillars of Objective

1) Appropriate Reflection of Risk
   - All else equal, greater risk in moderately adverse conditions requires greater statutory reserves, and vice-versa.

2) Comprehensive
   - The statutory reserve accounts for all material risks covered in the Valuation Manual and inherent reserves, and vice-versa.

3) Consistency Across Products
   - Statutory reserves between two contracts with similar features and risks are consistent given the same anticipated experience, regardless of product type.

4) Practicality and Appropriateness
   - Balance principles above with an approach that is practical, auditable, and able to be implemented.

(i) These objectives are specific to the ARWG and intentionally condensed; refer to VM-21, Section 1 for a formal list of PBR principles.
ARWG Vision and Need

Vision

Provide Academy framework on principle-based reserve (PBR) methodology for fixed annuity products and promote consistency with existing PBR frameworks.

How ARWG Plans to Accomplish Vision

a) Propose a PBR Approach—The ARWG plans to propose a CTE70 stochastic reserve calculation.

b) Develop a Framework Deck—Develop a set of slides laying out various elements of methodology.

c) Recommend consistency with VM-21 methodology—Start with VM-21 methodology.

Why Fixed Annuity PBR now?

- Flexible Methodology—As new products emerge introducing greater optionality and reinvestment risk, there is greater need for a reserve methodology that appropriately captures the risks in these products.
- Extend Existing PBR Framework—Seek consistency between fixed annuities and life/variable annuities (VM-20/VM-21).

(i) The ARWG only proposes a PBR modeled reserve and will not include any formulaic or prescriptive floors in its proposal.
Preliminary Timeline

- Develop proposed fixed annuity PBR framework deck
- Begin initial modeling sensitivities for generic FIA w/Guarantees
- Target adoption of fixed annuity PBR (potentially VM-22)

- Target 1/1/2023 effective date (monitor as progress develops)

Fall 2019–Spring 2020

- ARWG to present framework deck proposal to LATF
- Seek LATF endorsement of PBR framework deck (w/feedback addressed)

Summer 2020

- Begin industry field testing using draft (specifics TBD)

Spring 2021

- Target adoption of fixed annuity PBR (potentially VM-22)
- Target 1/1/2023 effective date (monitor as progress develops)

Spring 2022

- Valuation Manual language drafting efforts
- Seek LATF endorsement of PBR framework deck (w/feedback addressed)
- ARWG to present framework deck proposal to LATF

Fall 2020

- Fall 2019–Spring 2020

Spring 2020
ARWG Key Topics

1) Product Scope

- **Question**: Apply PBR to both deferred annuity and payout annuity contracts?
- **VM-20/VM-21 Treatment**: VM-20 applies PBR to all individual life products (including in exclusion test) and VM-21 applies PBR to all variable annuity products.
- **ARWG Perspective**: Recommend apply PBR to both deferred and payout annuity contracts.

- **Question**: Apply PBR to both deferred annuity and payout annuity contracts? (i.e., AG33, current VM-22, AG35, etc.).
- **VM-20/VM-21 Treatment**: VM-20 uses an exclusion test and VM-21 uses an Alternative Methodology.

2) Exclusion Test Methodology

- **Question**: Allow for exclusion test on new business that follows a similar framework to the VM-20? (Note: Exclusion Test Methodology)
- **VM-20/VM-21 Treatment**: VM-20 uses an exclusion test and VM-21 uses an Alternative Methodology.
- **ARWG Perspective**: Recommend following an exclusion test similar to the framework outlined in VM-20, which includes following a stochastic exclusion ratio test or certification method test. Products passing the exclusion test are deemed to have lower levels of market risk and policyholder optionality risk, and therefore, may elect to use the pre-PBR Commissioners’ Annuity Reserve Valuation Method (CARVM) reserve standards (i.e., AG33, current VM-22, AG35, etc.).

- **Question**: Allow for exclusion test on new business that follows a similar framework to the VM-20?
- **VM-20/VM-21 Treatment**: VM-20 uses an exclusion test and VM-21 uses an Alternative Methodology.

- **ARWG Perspective**: Recommend applying the PBR framework to both deferred and payout contracts for the first round of fixed annuity PBR and revisit these at a later point in time.
Asset Reinvestment Assumptions

**Question:** What assumptions should be used for reinvestment strategy?

**VM-20/VM-21 Treatment:** Use fixed-income reinvestment limits of 50% A and prescribed defaults and spreads for fixed-income products, we suggest revisiting the reinvestment credit quality mix.

**ARWG Perspective:**

- Propose same default/reinvestment spread assumptions as VM-21 but instead use a reinvestment consistent with the current VM-22 credit quality allocation of 5% Treasury, 15% A, 40% A4, 40% BBB.
- This credit quality mix is already used in the current fixed annuity valuation requirements and is more representative of average industry investment portfolio holdings.
- Eventually consider updating general account investments risk as proportional to the impact on fixed annuity modeled reserves relative to other risks, whereas this may not necessarily be the case to the same extent for variable annuities and life insurance (mortality-dependent).

**Recommendation:**

- Use fixed-income reinvestment limits of 50% A and prescribed defaults and spreads for fixed-income General account assets.
- Eventually consider updating general account investments risk as proportional to the impact on fixed annuity modeled reserves relative to other risks, whereas this may not necessarily be the case to the same extent for variable annuities and life insurance (mortality-dependent).

*(i) Changes to other VM sections are beyond the scope of this effort but to achieve consistency across the Valuation Manual (i.e., variable annuities) VM-20 and VM-21 may also warrant review for considering similar modifications.*
ARWG Key Topics

4) Aggregation

• Question: Permit aggregation across various fixed annuity and products and

ARWG Perspective: Shall we take action to explore eventual inforce application (consistency across risks and products and

VM-20/VM-21 Treatment: VM-21 permits aggregation across contracts; VM-20 permits aggregation within term vs. ULSG vs. other buckets.

ARWG Perspective: Aggregating across fixed annuity contracts, whether payouts or deferred, based on a set of outlined principles, including whether policies are part of the same integrated risk management system, whether policies are managed/administered together, some or similar asset portfolios, etc.; but with no pre-defined buckets.

VM-20/VM-21 Treatment: VM-21 permits aggregation across contracts; VM-20 permits aggregation within term vs. ULSG vs. other buckets.

• Question: Permit aggregation across various fixed annuity and payout contracts?
IUL Illustration (A) Subgroup Minutes
The IUL Illustration (A) Subgroup of the Life Actuarial (A) Task Force met via conference call June 2, 2020. The following Subgroup members participated: Fred Andersen, Chair (MN); Ted Chang (CA); Andrew Greenhalgh (CT); Mike Yanacheak (IA); Vincent Tsang (IL); Rhonda Ahrens (NE); Bill Carmello (NY); Peter Weber (OH); Mike Boerner and John Carter (TX); Tomasz Serbinowski (UT); and Craig Chupp (VA).

1. Discussed Technical Edits to the ACLI AG 49 Proposal

Mr. Andersen discussed the redline version of AG 49-A, the proposed revisions to Actuarial Guideline XLIX—The Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest (AG 49) (Attachment 1). He said the revisions include technical edits to replace the term “annual percentage rate” with “annual rate” because the former term is commonly used in places other than AG 49. Birny Birnbaum (Center for Economic Justice—CEJ) recommended revising the proposed definition of “annual rate of index credits” because the definition seemed circular.

Brian Bayerle (American Council of Life Insurers—ACLI) discussed the remaining revisions. Upon Mr. Andersen’s request, Mr. Bayerle agreed to provide an updated version of AG 49-A for submission to the Life Actuarial (A) Task Force. Mr. Andersen said the Task Force will address the question of retroactivity.

Graham Summerlee (Lincoln Financial Group) said the IUL Coalition comment letter (Attachment 2) is seeking to add a sentence to Section 5A to ensure that the assumed earned rate from the hedge will not exceed the amount of index credits being illustrated. Mr. Bayerle said the suggested sentence has already been incorporated into the AG 49-A revision.

Mr. Chupp said his comment letter (Attachment 3) recommends several changes, including a change to correct the language in Section 5A to be consistent with the examples that the ACLI provided. He agreed to work with Mr. Bayerle to correct the issues in advance of the Task Force conference call.

Having no further business, the IUL Illustration (A) Subgroup adjourned.
IUL Illustration (A) Subgroup
Conference Call
May 26, 2020

The IUL Illustration (A) Subgroup of the Life Actuarial (A) Task Force met via conference call May 26, 2020. The following Subgroup members participated: Fred Andersen, Chair (MN); Ted Chang (CA); Andrew Greenhalgh (CT); Mike Yanacheak (IA); Vincent Tsang (IL); Rhonda Ahrens (NE); Bill Carmello (NY); Peter Weber (OH); Mike Boerner and John Carter (TX); Tomasz Serbinowski (UT); and Craig Chupp (VA).

1. Discussed Technical Edits to the ACLI AG 49 Proposal

Brian Bayerle (American Council of Life Insurers—ACLI) discussed the changes made to the ACLI proposal for edits to Actuarial Guideline XLIX—The Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest (AG 49) (Attachment 1) resulting from comments provided on the May 21 Life Actuarial (A) Task Force conference call. The Subgroup agreed with the revisions being proposed, except for a few minor edits. Mr. Bayerle said he would create a redline version by applying the agreed upon edits to the current version of AG 49. He noted that the Task Force will be called upon to decide on the desired approach for determining the crediting rate for policy loans.

Having no further business, the IUL Illustration (A) Subgroup adjourned.

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