MEETING MATERIALS PACKET

LIFE ACTUARIAL (A) TASK FORCE (3)

August 4, 2020

NAIC SPRING NATIONAL MEETING

Virtual Meeting
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2020 Summer National Meeting
Virtual Meeting

LIFE ACTUARIAL (A) TASK FORCE
Tuesday, August 4, 2020
11:00 a.m. – 2:00 p.m. ET / 10:00 a.m. – 1:00 p.m. CT / 9:00 a.m. – 12:00 p.m. MT / 8:00 – 11:00 a.m. PT

ROLL CALL

<table>
<thead>
<tr>
<th>Member</th>
<th>Representative</th>
<th>State</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kent Sullivan, Chair</td>
<td>Mike Boerner</td>
<td>Texas</td>
</tr>
<tr>
<td>Jillian Froment, Vice Chair</td>
<td>Peter Weber</td>
<td>Ohio</td>
</tr>
<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>
</tr>
<tr>
<td>Michael Conway</td>
<td>Eric Unger</td>
<td>Colorado</td>
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<tr>
<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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<tr>
<td>Stephen W. Robertson</td>
<td>Karl Knable</td>
<td>Indiana</td>
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<tr>
<td>Doug Ommen</td>
<td>Mike Yanacheak</td>
<td>Iowa</td>
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<tr>
<td>Vicki Schmidt</td>
<td>Nicole Boyd</td>
<td>Kansas</td>
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<tr>
<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>
</tr>
<tr>
<td>Bruce R. Ramge</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>
</tr>
<tr>
<td>Russell Toal</td>
<td>Mark Hendrick</td>
<td>New Mexico</td>
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<tr>
<td>Linda A. Lacewell</td>
<td>Bill Carmello</td>
<td>New York</td>
</tr>
<tr>
<td>Glen Mulready</td>
<td>Andrew Schallhorn</td>
<td>Oklahoma</td>
</tr>
<tr>
<td>Todd E. Kiser</td>
<td>Tomasz Serbinowski</td>
<td>Utah</td>
</tr>
<tr>
<td>Scott A. White</td>
<td>Craig Chupp</td>
<td>Virginia</td>
</tr>
</tbody>
</table>

NAIC Support Staff: Reggie Mazyck/Eric King

AGENDA

10:00 – 11:00 a.m. 1. Consider Exposure/Adoption of *Valuation Manual* Amendments—*Mike Boerner (TX)*

11:00 – 11:15 a.m. 2. Consider Exposure of the Generally Recognized Expense Tables (GRET) Recommendation—*Leon L. Langlitz (Society of Actuaries—SOA)*

11:15 – 11:30 a.m. 3. Hear an Update on SOA Research and Education—*Dale Hall (SOA)*

11:30 – 11:40 a.m. Break

11:40 a.m. – 12:30 p.m. 4. Discuss the 2020 Life Mortality Improvement Factors—*Marianne Purushotham (American Academy of Actuaries [Academy] Life Experience Committee and SOA Preferred Mortality Project Oversight Group)*

12:30 – 12:45 p.m. 5. Hear an Update on the Academy Principle-Based Reserving (PBR) Governance Work Group—*Donna Claire (Academy Life Practice Council)*

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12:45 – 1:00 p.m.  

6. Hear an Update from the Academy Council on Professionalism—Shawna Ackerman (Academy), Kathy Riley (Actuarial Standards Board—ASB), and Godfrey Perrott (Actuarial Board for Counseling and Discipline—ABCD)
Amendment Proposal Form 2019-33
Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force
Amendment Proposal Form*

1. Identify yourself, your affiliation and a very brief description (title) of the issue.

American Academy of Actuaries, Life Reserves Work Group

Addition of language to clarify the definition of individually underwritten life insurance and the applicability of Principle-Based Reserve (PBR) requirements for group insurance contracts with individual risk selection issued under insurance certificates.

2. Identify the document, including the date if the document is “released for comment,” and the location in the document where the amendment is proposed:

January 1, 2020 version of the Valuation Manual used.

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted or changed by providing a red-line (turn on “track changes” in Word®) version of the verbiage. (You may do this through an attachment.)

See Appendix

4. State the reason for the proposed amendment? (You may do this through an attachment.)

Individual insurance certificates issued under a group contract which utilize an individual risk selection process, pricing, premium rate structures and product features are similar to individual life insurance policies. They are currently excluded from VM-20 because they are filed under a group contract, but they should be subject to VM-20 due to this similarity. See Appendix.

* This form is not intended for minor corrections, such as formatting, grammar, cross-references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

** NAIC Staff Comments:

<table>
<thead>
<tr>
<th>Dates: Received</th>
<th>Reviewed by Staff</th>
<th>Distributed</th>
<th>Considered</th>
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</thead>
<tbody>
<tr>
<td>3/19/19</td>
<td></td>
<td></td>
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</tbody>
</table>

Notes: APF 2019-33
Appendix

Issue

Certain contracts issued under a master group contract require individual risk selection in order to qualify for issuance of the group insurance certificate and do not require continued membership in the group in order to maintain coverage. The certificates have similar acquisition approaches, provisions, certificate-holder rights, pricing and risk classification, and are managed in a similar manner as individual ordinary life insurance contracts. These individual certificates should follow the same reserve requirements as other individual life contracts of the same product type. Therefore, a change is needed within the Valuation Manual to bring these individual certificates into scope of VM-20.

Eight changes are recommended:

1) Within the Reserve Requirements section (Section II), change the minimum reserve requirements to also apply to group life contracts which, other than the difference between issuing a policy and issuing a group certificate, have the same or mostly similar contract provisions, risk selection process and underwriting as individual ordinary life contracts;

2) Within the Reserve Requirements section (Section II), add a transition period for individual group certificates issued on or before 1/1/2024;

3) Within the Reserve Requirements section (Section II), add language to Subsection 1.D and the corresponding footnote to include premiums from group life contracts which have individual certificates that were issued using individual risk selection processes;

4) Add new paragraph, VM-20 Section 1.B (and reformat to make current paragraph Section 1.A) to clarify group life certificates issued using individual risk selection processes, including a definition and requirements to be met, are subject to the requirements of VM-20;

5) Add guidance note after first sentence in VM-20 Section 2.A.1 that group life certificates that meet the definition for individual risk selection process use the same VM-20 Reserving Categories as defined in Section 2;

6) Modify VM-51 Section 2.B to no longer exempt individually solicited group life which meet the requirements and definitions under items (1) and (2) above; and

7) Modify VM-51, Appendix 4, Item 17 to no longer exempt individually solicited group life contracts which meet the requirements under items (1) and (2) above.

8) Draft referral to the NAIC Blanks (E) Working Group, to revise the VM-20 Reserves Supplement, Part 2 to report premiums for total Group Life and Group Life with certificates subjected to an individual risk selection process and which meet all of the conditions as defined in VM-20 Section 1.B separately.
II. Reserve Requirements

This section provides the minimum reserve requirements by type of product, as set forth in the seven subsections below, as follows:

(1) Life Insurance Products
(2) Annuity Products
(3) Deposit-Type Contracts
(4) Health Insurance Products
(5) Credit Life and Disability Products
(6) Riders and Supplemental Benefits
(7) Claim Reserves

All reserve requirements provided by this section relate to business issued on or after the operative date of the Valuation Manual. All reserves must be developed in a manner consistent with the requirements and concepts stated in the Overview of Reserve Concepts in Section I of the Valuation Manual.

Guidance Note: The terms “policies” and “contracts” are used interchangeably.

Subsection 1: Life Insurance Products

A. This subsection establishes reserve requirements for all contracts issued on and after the operative date of the Valuation Manual that are classified as life contracts as defined in SSAP No. 50 in the AP&P Manual, with the exception of annuity contracts and credit life contracts. Minimum reserve requirements for annuity contracts and credit life contracts are provided below in subsection 2 and subsection 5, respectively.

B. Minimum reserve requirements for variable and nonvariable individual life contracts—excluding guaranteed issue life contracts, preneed life contracts, industrial life contracts, and policies of companies exempt pursuant to the life PBR exemption in paragraph D below—are provided by VM-20, Requirements for Principle-Based Reserves for Life Products, except for election of the transition period in subsection 1.F below. For this purpose, joint life policies are considered individual life.

C. Minimum reserve requirements for group life contracts with individual certificates which meet all the requirements in VM-20 Section 1.B are provided by VM-20, except for election of the transition period in subsection 1.F below.

D. Minimum reserve requirements of VM-20 are considered principle-based valuation requirements for purposes of the Valuation Manual.

E. Minimum reserve requirements for life contracts not subject to VM-20 are those pursuant to applicable requirements in VM-A and VM-C. For guaranteed issue life contracts issued after Dec. 31, 2018, mortality tables are defined in VM Appendix M – Mortality Tables (VM-M), and the same table shall be used for reserve requirements as is used for minimum nonforfeiture requirements as defined in VM-02, Minimum Nonforfeiture Mortality and Interest.

F. A company may elect to establish minimum reserves pursuant to applicable requirements in VM-A and VM-C for...
1. Business described in subsection 1.C above and issued on or after the operative date of the Valuation Manual and prior to 1/1/2024.

2. Business not described subsection 1.C otherwise subject to VM-20 requirements and issued during the first three years following the operative date of the Valuation Manual.

A company electing to establish reserves using the requirements of VM-A and VM-C may elect to use the 2017 Commissioners’ Standard Ordinary (CSO) Tables as the mortality standard following the conditions outlined in VM-20 Section 3. If a company during the three years elects to apply VM-20 to a block of such business, then a company must continue to apply the requirements of VM-20 for future issues of this business.

**Life PBR Exemption**

1. A company meeting the condition in subsection DG.2 below may file a statement of exemption for ordinary life insurance policies including group life insurance certificates subject to an individual risk selection process and meeting all the conditions in VM-20 Section 1.B, except for policies in subsection DG.3 below, issued directly or assumed during the current calendar year, that would otherwise be subject to VM-20. Such a statement must be filed with the domiciliary commissioner prior to July 1 of that year certifying that condition subsection DG.2 was met based on premiums from the prior calendar year annual statement. The statement of exemption must also be included with the NAIC filing for the second quarter of that year.

The domiciliary commissioner may reject such statement prior to Sept. 1 and require the company to follow the requirements of VM-20 for the ordinary life policies covered by the statement.

2. Condition for Exemption:
   a. The company has less than $300 million of ordinary life premiums¹, and if the company is a member of an NAIC group of life insurers, the group has combined ordinary life premiums¹ of less than $600 million.

3. Policies Excluded from the Life PBR Exemption:
   a. Universal life with secondary guarantee (ULSG) policies with a secondary guarantee that does not meet the VM-01, Definitions for Terms in Requirements, definition of a “non-material secondary guarantee.”

4. Each exemption, or lack of an exemption, applies only to policies issued or assumed in the current year, and it applies to all future valuation dates for those policies. The minimum reserve requirements for the ordinary life policies subject to the exemption are those pursuant to applicable methods required in VM-A and VM-C using the mortality as defined in VM-20 Section 3.C.1 and VM-M Section 1.H.

**Footnote change**

¹Premiums are measured as direct plus reinsurance assumed from an unaffiliated company from the ordinary life line of business reported in the prior calendar year life/health annual financial statement, Exhibit 1, Part 1, Column 3, “Ordinary Life Insurance”. Premiums should also include the premiums from group life insurance certificates that were subject to an individual risk selection process and meet all the conditions as defined in VM-20 Section 1.B (and For a statement of exemptions filed for calendar year 2022 and beyond, the premiums for these group life certificates were reported in the prior calendar year life/health annual financial statement, [VM-20 Reserves Supplement, Part 2, if applicable[A1]]). Premiums should exclude premiums for guaranteed issue policies and preneed life contracts and excluding amounts that represent the transfer of reserves in force as of the effective date of a reinsurance assumed transaction and are reported in Exhibit 1 Part 1, Column 3 as ordinary life insurance premium and guaranteed issue life insurance policies are as defined in VM-01.
VM-20: Requirements for Principles-Based Reserves for Life Products

Section 1: Purpose

A. These requirements establish the minimum reserve valuation standard for individual life insurance policies issued on or after the operative date of the Valuation Manual and subject to a principle-based valuation with an NPR floor under Model #820. These requirements constitute the Commissioners Reserve Valuation Method (CRVM) for policies of individual life insurance.

B. If all of the following requirements are met, individual life certificates under a group contract are included in the requirements of VM-20.

(i) An individual risk selection process, defined below, is used to obtain group life insurance coverage;

(ii) The individual certificates utilize premiums or cost of insurance schedules and charges based on the individual applicant’s issue age, duration from underwriting, coverage amount and risk classification and there is a stated or implied schedule of maximum gross premiums or net cash surrender value required in order to continue coverage in force for a period in excess of one year;

(iii) The group master contract is designed, priced, solicited, and managed similar to individual ordinary life insurance policies rather than specific to the group as a whole;

(iv) The individual certificates have similar acquisition approaches, provisions, certificate-holder rights, pricing, and risk classification as individual ordinary life insurance contracts.

(v) The group master contract and individual certificates are issued on or after the operative date of the Valuation Manual and subject to a principle-based valuation with an NPR floor under Model #820.

An individual risk selection process is based on characteristics of the insured(s) beyond sex, gender, age, tobacco usage, and membership in a particular group. This may include, but is not limited to, completion of an application (beyond acknowledgement of membership to the group, sex, gender and age), questionnaire(s), on-line health history or tele-interview to obtain non-medical and medical or health history information, prescription history information, avocations, usage of tobacco, family history, or submission of fluids such as blood, Home Office Specimens (HOS), or oral fluid. The resulting risk classification is determined based on the characteristics of the individual insured(s) rather than the group, if any, of which it is a member (e.g., employer, affinity, etc.). The individual certificate holder is charged a premium rate based solely on the individual risk selection process and not on membership in a specific group.
**Guidance Note:** The use of evidence of insurability does not by itself constitute an individual risk selection process. Use of information obtained from a census or question(s) regarding gender, occupation, age, income and/or tobacco usage solely for purposes of determining a rate classification does not by itself qualify a group as having used an individual risk selection process. Group insurance where the underwriting based on the characteristics of the group and census data but where some individuals are subjected to individual risk selection as a result of compensation level, age, an existing medical condition or impairment, late entry into the group, failure of the group to meet minimum participation requirements or voluntary buy-up of increased coverage does not meet the definition of an individual risk selection process.
VM Change 5 - VM-20: Requirements for Principle-Based Reserves for Life Products

Section 2: Minimum Reserve

A. All policies subject to these requirements shall be included in one of the VM-20 Reserving Categories, as specified in Section 2.A.1, Section 2.A.2 and Section 2.A.3 below.

Guidance Note: Since Group Insurance subject to an individual risk selection process and meeting all the requirements, as defined by Section 1.B is subject to VM-20 requirements, Section 2.A shall apply- meaning that any such contracts will be included in one of the VM-20 Reserving Categories defined by Section 2.A.1, Section 2.A.2, and 2.A.3. All requirements in VM-31 which apply to a VM-20 Reserving Category shall apply to any group insurance subject to Individual Underwriting Selection that has been included in that VM-20 Reserving Category.

The company may elect to exclude one or more groups of policies from the stochastic reserve calculation and/or the deterministic reserve calculation. When excluding a group of policies from a reserve calculation, the company must document that the applicable exclusion test defined in Section 6 is passed for that group of policies. The minimum reserve for each VM-20 Reserving Category is defined by Section 2.A.1, Section 2.A.2 and Section 2.A.3, and the total minimum reserve equals the sum of the Section 2.A.1, Section 2.A.2 and Section 2.A.3 results below, defined as:
Section 2: Statistical Plan for Mortality

A. Type of Experience Collected Under This Statistical Plan

The type of experience to be collected under this statistical plan is mortality experience.

B. Scope of Business Collected Under This Statistical Plan

The data for this statistical plan is the individual ordinary life line of business. Such business is to include direct written business issued in the U.S., and all values should be prior to any reinsurance ceded. Therefore, reinsurance assumed from a ceding company shall be excluded from data collection to avoid double-counting of experience submitted by an issuer and by its reinsurers; however, assumption reinsurance of an individual ordinary life line of business, where the assuming company is legally responsible for all benefits and claims paid, shall be included within the scope of this statistical plan. The ordinary life line of business does not include separate lines of business, such as SI/GI, worksite, individually solicited group life that does not meet all the requirements as defined in VM-20 Section 1.B, direct response, final expense, pre-need, home service, credit life and COLI/BOLI/charity-owned life insurance (CHOLI).

C. Criteria to Determine Companies That Are Required to Submit Experience Data

Companies with less than $50 million of direct individual life premium shall be exempted from reporting experience data required under this statistical plan. This threshold for exemption shall be measured based on aggregate premium volume of all affiliated companies and shall be reviewed annually and be subject to change by the Experience Reporting Agent. At its option, a group of nonexempt affiliated companies may exclude from these requirements affiliated companies with less than $10 million direct individual life premium provided that the affiliated group remains nonexempt.

Additional exemptions may be granted by the Experience Reporting Agent where appropriate, following consultation with the domestic insurance regulator, based on achieving a target level of approximately 85% of industry experience for the type of experience data being collected under this statistical plan.
<table>
<thead>
<tr>
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<th>COLUMN</th>
<th>L</th>
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<th>DESCRIPTION</th>
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<tbody>
<tr>
<td>1</td>
<td>1–5</td>
<td>5</td>
<td>NAIC Company Code</td>
<td>Your NAIC Company Code</td>
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<tr>
<td>2</td>
<td>6–9</td>
<td>4</td>
<td>Observation Year</td>
<td>Enter Calendar Year of Observation</td>
</tr>
<tr>
<td>3</td>
<td>10–29</td>
<td>20</td>
<td>Policy or Certificate Number</td>
<td>Enter Policy Number. For Policy Numbers with length less than 20, left justify the number, and blank fill the empty columns. Any other unique identifying number can be used instead of a Policy Number for privacy reasons.</td>
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<tr>
<td>4</td>
<td>30</td>
<td>1</td>
<td>Individual Contract or Group Certificate</td>
<td>Enter I if for an Individual Contract or G for Group Contract, even if issued using an individual risk selection process and meets all the requirements as defined in VM-20 Section 1.B.</td>
</tr>
<tr>
<td>45</td>
<td>30–32</td>
<td>3</td>
<td>Segment Number</td>
<td>If only one policy segment exists, enter segment number ‘1.’ For a single life policy, the base policy is to be put in the record with segment number ‘1.’ Subsequent policy segments are in separate records with information about that coverage and differing segment numbers. For joint life policies, the base policy of the first life is to be put in a record with segment number ‘1,’ and the base policy of the second life is to be put in a separate record with segment number ‘2.’ Joint life policies with more than two lives are not to be submitted. Subsequent policy segments are in separate records with information about that coverage and differing segment numbers. Policy segments with the same policy number are to be submitted for: a) Single life policies; b) Joint life policies; c) Term/paid up riders; or d) Additional amounts of insurance including purchase through dividend options.</td>
</tr>
<tr>
<td>56</td>
<td>33–34</td>
<td>2</td>
<td>State of Issue</td>
<td>Use standard, two-letter state abbreviation codes (e.g., NY for New York)</td>
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<td>35</td>
<td>1</td>
<td>Gender</td>
<td>0 = Unknown or unable to subdivide 1 = Male 2 = Female 3 = Unisex – Unknown or unable to identify 4 = Unisex – Male 5 = Unisex – Female</td>
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<tr>
<td>78</td>
<td>36–37</td>
<td>8</td>
<td>Date of Birth</td>
<td>Enter the numeric date of birth in YYYYMMDD format</td>
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<td>89</td>
<td>44</td>
<td>1</td>
<td>Age Basis</td>
<td>0 = Age Nearest Birthday 1 = Age Last Birthday 2 = Age Next birthday</td>
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**Drafting Note:** Professional actuarial organization will need to develop either age next birthday mortality tables.
or procedure to adapt existing mortality tables to age next birthday basis.

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<td>Issue Date</td>
<td>Enter the numeric calendar year in YYYYMMDD format.</td>
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<tr>
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<th>DESCRIPTION</th>
</tr>
</thead>
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<tr>
<td>1112</td>
<td>5657</td>
<td>1</td>
<td>Smoker Status (at issue)</td>
<td>Smoker status should be submitted where reliable. 0 = Unknown 1 = No tobacco usage 2 = Nonsmoker 3 = Cigarette smoker 4 = Tobacco user</td>
</tr>
<tr>
<td>1213</td>
<td>5758</td>
<td>1</td>
<td>Preferred Class Structure Indicator</td>
<td>0 = If no reliable information on multiple preferred and standard classes is available or if the policy segment was issued substandard or if there were no multiple preferred and standard classes available for this policy segment or if preferred information is unknown. 1 = If this policy was issued in one of the available multiple preferred and standard classes for this policy segment. Note: If Preferred Class Structure Indicator is 0, or if preferred information is unknown, leave next four items blank.</td>
</tr>
<tr>
<td>1314</td>
<td>5859</td>
<td>1</td>
<td>Number of Classes in Nonsmoker Preferred Class Structure</td>
<td>If Preferred Class Structure Indicator is 0 or if Smoker Status is 0, 3 or 4, or if preferred information is unknown, leave blank. For nonsmoker or no tobacco usage policies that could have been issued as one of multiple preferred and standard classes, enter the number of nonsmoker preferred and standard classes available at time of issue.</td>
</tr>
<tr>
<td>1415</td>
<td>5960</td>
<td>1</td>
<td>Nonsmoker Preferred Class</td>
<td>If Preferred Class Structure Indicator is 0 or if Smoker Status is 0, 3 or 4, or if preferred information is unknown, leave blank. For nonsmoker policy segments that could have been issued as one of multiple preferred and standard classes: 1 = Best preferred class 2 = Next Best preferred class after 1 3 = Next Best preferred class after 2 4 = Next Best preferred class after 3 5 = Next Best preferred class after 4 6 = Next Best preferred class after 5 7 = Next Best preferred class after 6 8 = Next Best preferred class after 7 9 = Next Best preferred class after 8 Note: The policy segment with the highest nonsmoker Preferred Class number should have that number equal to the Number of Classes in Nonsmoker Preferred Class Structure.</td>
</tr>
</tbody>
</table>
### Item 4516: Number of Classes in Smoker Preferred Class Structure

If Preferred Class Structure Indicator is 0 or if Smoker Status is 0, 1 or 2, or if preferred information is unknown, leave blank.

For smoker or tobacco user policies that could have been issued as one of multiple preferred and standard classes, enter the number of smoker preferred and standard classes available at time of issue.

<table>
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<tr>
<th>ITEM</th>
<th>COLUMN</th>
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<td>Number of Classes in Smoker Preferred Class Structure</td>
<td>If Preferred Class Structure Indicator is 0 or if Smoker Status is 0, 1 or 2, or if preferred information is unknown, leave blank. For smoker or tobacco user policies that could have been issued as one of multiple preferred and standard classes, enter the number of smoker preferred and standard classes available at time of issue.</td>
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### Item 4617: Smoker Preferred Class

If Preferred Class Structure Indicator is 0 or if Smoker Status is 0, 1 or 2, or if preferred information is unknown, leave blank.

For smoker policy segments that could have been issued as one of multiple preferred and standard classes:

1 = Best preferred class  
2 = Next Best preferred class after 1  
3 = Next Best preferred class after 2  
4 = Next Best preferred class after 3  
5 = Next Best preferred class after 4  
6 = Next Best preferred class after 5  
7 = Next Best preferred class after 6  
8 = Next Best preferred class after 7  
9 = Next Best preferred class after 8

Note: The policy segment with the highest Smoker Preferred Class number should have that number equal to the Number of Classes in Smoker Preferred Class Structure.

### Item 4718: Type of Underwriting Requirements

If underwriting requirement of ordinary business is reliably known, use code other than “99.” Ordinary business does not include separate lines of business, such as simplified issue/guaranteed issue, worksite, individually solicited group life that does not meet all the requirements as defined in VM-20 Section 1.B, direct response, final expense, pre-need, home service and COLI/BOLI/CHOLI.

01 = Underwritten, but unknown whether fluid was collected  
02 = Underwritten with no fluid collection  
03 = Underwritten with fluid collected  
06 = Term Conversion  
07 = Group Conversion  
09 = Not Underwritten  
99 = For issues where underwriting requirement unknown or unable to subdivide

© 2018 National Association of Insurance Commissioners
### ITEM 4819 6465 1 Substandard Indicator

0 = Policy segment is not substandard
1 = Policy segment is substandard
2 = Policy segment is uninsurable

**Note:**

a. All policy segments that are substandard need to be identified as substandard or uninsurable.
b. Submission of substandard policies is optional.
c. If feasible, identify substandard policy segments where temporary flat extra has ceased as substandard.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>COLUMN</th>
<th>L</th>
<th>DATA ELEMENT</th>
<th>DESCRIPTION</th>
</tr>
</thead>
</table>
| 4920 | 65-6766-68 | 3 | Plan | Exclude from contribution: spouse and children under family policies or riders. If Form for Additional Plan Codes was submitted for this policy, enter unique three-digit plan number(s) that differ from the plan numbers below:

  000 = If unable to distinguish among plan types listed below
  100 = Joint life plan unable to distinguish among joint life plan types listed below

**Permanent Plans:**

010 = Traditional fixed premium fixed benefit permanent plan
011 = Permanent life (traditional) with term
012 = Single premium whole life
013 = Econolife (permanent life with lower premiums in the early durations)
014 = Excess interest whole life
015 = First to die whole life plan (submit separate records for each life)
016 = Second to die whole life plan (submit separate records for each life)
017 = Joint whole life plan – unknown whether 015 or 016 (submit separate records for each life)
018 = Permanent products with non-level death benefits
019 = Permanent plans 010, 011, 012, 013, 014, 015, 016, 017, 018 combined (i.e. unable to separate)

**Term Insurance Plans:**

020 = Term (traditional level benefit and attained age premium)
021 = Term (level death benefit with guaranteed level premium for five years and anticipated level term period for five years)
211 = Term (level death benefit with guaranteed level premium for five years and anticipated level term period for 10 years)
212 = Term (level death benefit with guaranteed level premium for five years and anticipated level term period for 15 years)
213 = Term (level death benefit with guaranteed level premium for five years and anticipated level term period for 20 years)
<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>214</td>
<td>Term (level death benefit with guaranteed level premium for five years and anticipated level term period for 25 years)</td>
</tr>
<tr>
<td>215</td>
<td>Term (level death benefit with guaranteed level premium for five years and anticipated level term period for 30 years)</td>
</tr>
<tr>
<td>022</td>
<td>Term (level death benefit with guaranteed level premium for 10 years and anticipated level term period for 10 years)</td>
</tr>
<tr>
<td>221</td>
<td>Term (level death benefit with guaranteed level premium for 10 years and anticipated level term period for 15 years)</td>
</tr>
<tr>
<td>222</td>
<td>Term (level death benefit with guaranteed level premium for 10 years and anticipated level term period for 20 years)</td>
</tr>
<tr>
<td>223</td>
<td>Term (level death benefit with guaranteed level premium for 10 years and anticipated level term period for 25 years)</td>
</tr>
<tr>
<td>224</td>
<td>Term (level death benefit with guaranteed level premium for 10 years and anticipated level term period for 30 years)</td>
</tr>
<tr>
<td>023</td>
<td>Term (level death benefit with guaranteed level premium for 15 years and anticipated level term period for 15 years)</td>
</tr>
<tr>
<td>231</td>
<td>Term (level death benefit with guaranteed level premium for 15 years and anticipated level term period for 20 years)</td>
</tr>
<tr>
<td>232</td>
<td>Term (level death benefit with guaranteed level premium for 15 years and anticipated level term period for 25 years)</td>
</tr>
<tr>
<td>233</td>
<td>Term (level death benefit with guaranteed level premium for 15 years and anticipated level term period for 30 years)</td>
</tr>
<tr>
<td>024</td>
<td>Term (level death benefit with guaranteed level premium for 20 years and anticipated level term period for 20 years)</td>
</tr>
<tr>
<td>241</td>
<td>Term (level death benefit with guaranteed level premium for 20 years and anticipated level term period for 25 years)</td>
</tr>
<tr>
<td>242</td>
<td>Term (level death benefit with guaranteed level premium for 20 years and anticipated level term period for 30 years)</td>
</tr>
<tr>
<td>025</td>
<td>Term (level death benefit with guaranteed level premium for 25 years and anticipated level term period for 25 years)</td>
</tr>
<tr>
<td>251</td>
<td>Term (level death benefit with guaranteed level premium for 25 years and anticipated level term period for 30 years)</td>
</tr>
<tr>
<td>026</td>
<td>Term (level death benefit with guaranteed level premium for 30 years and anticipated level term period for 30 years)</td>
</tr>
<tr>
<td>027</td>
<td>Term (level death benefit with guaranteed level premium period equal to anticipated level term period where the period is other than five, 10, 15, 20, 25 or 30 years)</td>
</tr>
<tr>
<td>271</td>
<td>Term (level death benefit with guaranteed level premium period not equal to anticipated level term period, where the periods are other than five, 10, 15, 20, 25 or 30 years)</td>
</tr>
<tr>
<td>028</td>
<td>Term (decreasing benefit)</td>
</tr>
<tr>
<td>Code</td>
<td>Description</td>
</tr>
<tr>
<td>------</td>
<td>-------------</td>
</tr>
<tr>
<td>040</td>
<td>Select ultimate term (premium depends on issue age and duration)</td>
</tr>
<tr>
<td>041</td>
<td>Return of Premium Term (level death benefit with guaranteed level premium for 15 years)</td>
</tr>
<tr>
<td>042</td>
<td>Return of Premium Term (level death benefit with guaranteed level premium for 20 years)</td>
</tr>
<tr>
<td>043</td>
<td>Return of Premium Term (level death benefit with guaranteed level premium for 25 years)</td>
</tr>
<tr>
<td>044</td>
<td>Return of Premium Term (level death benefit with guaranteed level premium for 30 years)</td>
</tr>
<tr>
<td>045</td>
<td>Return of Premium Term (level death benefit with guaranteed level premium for period other than 15, 20, 25 or 30 years)</td>
</tr>
<tr>
<td>046</td>
<td>Economatic term</td>
</tr>
<tr>
<td>059</td>
<td>Term plan, unable to classify</td>
</tr>
<tr>
<td>101</td>
<td>First to die term plan (submit separate records for each life)</td>
</tr>
<tr>
<td>102</td>
<td>Second to die term plan (submit separate records for each life)</td>
</tr>
<tr>
<td>103</td>
<td>Joint term plan – unknown whether 101 or 102 (submit separate records for each life)</td>
</tr>
</tbody>
</table>

**Universal Life Plans (Other than Variable), issued without a Secondary Guarantee:**

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>061</td>
<td>Single premium universal life</td>
</tr>
<tr>
<td>062</td>
<td>Universal life (decreasing risk amount)</td>
</tr>
<tr>
<td>063</td>
<td>Universal life (level risk amount)</td>
</tr>
<tr>
<td>064</td>
<td>Universal life – unknown whether code 062 or 063</td>
</tr>
<tr>
<td>065</td>
<td>First to die universal life plan (submit separate records for each life)</td>
</tr>
<tr>
<td>066</td>
<td>Second to die universal life plan (submit separate records for each life)</td>
</tr>
<tr>
<td>067</td>
<td>Joint life universal life plan – unknown whether code 065 or 066 (submit separate records for each life)</td>
</tr>
<tr>
<td>068</td>
<td>Indexed universal life</td>
</tr>
</tbody>
</table>

**Universal Life Plans (Other than Variable) with Secondary Guarantees:**

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>071</td>
<td>Single premium universal life with secondary guarantees</td>
</tr>
<tr>
<td>072</td>
<td>Universal life with secondary guarantees (decreasing risk amount)</td>
</tr>
<tr>
<td>073</td>
<td>Universal life with secondary guarantees (level risk amount)</td>
</tr>
<tr>
<td>074</td>
<td>Universal life with secondary guarantees – unknown whether code 072 or 073</td>
</tr>
<tr>
<td>075</td>
<td>First to die universal life plan with secondary guarantees (submit separate records for each life)</td>
</tr>
<tr>
<td>076</td>
<td>Second to die universal life plan with secondary guarantees (submit separate records for each life)</td>
</tr>
<tr>
<td>077</td>
<td>Joint life universal life plan with secondary guarantees unknown whether code 075 or 076 (submit separate records for each life)</td>
</tr>
<tr>
<td>078</td>
<td>Indexed universal life with secondary guarantees</td>
</tr>
</tbody>
</table>

**Variable Life Plans issued without a Secondary Guarantee:**
<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>080</td>
<td>Variable life</td>
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<tr>
<td>081</td>
<td>Variable universal life (decreasing risk amount)</td>
</tr>
<tr>
<td>082</td>
<td>Variable universal life (level risk amount)</td>
</tr>
<tr>
<td>083</td>
<td>Variable universal life – unknown whether code 081 or 082</td>
</tr>
<tr>
<td>084</td>
<td>First to die variable universal life plan (submit separate records for each life)</td>
</tr>
<tr>
<td>085</td>
<td>Second to die variable universal life plan (submit separate records for each life)</td>
</tr>
<tr>
<td>086</td>
<td>Joint life variable universal life plan – unknown whether 084 or 085 (submit separate records for each life)</td>
</tr>
<tr>
<td></td>
<td><strong>Variable Life Plans with Secondary Guarantees:</strong></td>
</tr>
<tr>
<td>090</td>
<td>Variable life with secondary guarantees</td>
</tr>
<tr>
<td>091</td>
<td>Variable universal life with secondary guarantees (decreasing risk amount)</td>
</tr>
<tr>
<td>092</td>
<td>Variable universal life with secondary guarantees (level risk amount)</td>
</tr>
<tr>
<td>093</td>
<td>Variable universal life with secondary guarantees – unknown whether code 091 or 092</td>
</tr>
<tr>
<td>094</td>
<td>First to die variable universal life plan with secondary guarantees (submit separate records for each life)</td>
</tr>
<tr>
<td>095</td>
<td>Second to die variable universal life plan with secondary guarantees (submit separate records for each life)</td>
</tr>
<tr>
<td>096</td>
<td>Joint life variable universal life plan with secondary guarantees – unknown whether code 094 or 095 (submit separate records for each life)</td>
</tr>
<tr>
<td></td>
<td><strong>Nonforfeiture:</strong></td>
</tr>
<tr>
<td>098</td>
<td>Extended term</td>
</tr>
<tr>
<td>099</td>
<td>Reduced paid-up</td>
</tr>
<tr>
<td>198</td>
<td>Extended term for joint life (submit separate records for each life)</td>
</tr>
<tr>
<td>199</td>
<td>Reduced paid-up for joint life (submit separate records for each life)</td>
</tr>
</tbody>
</table>
Refer to NAIC Blanks (E) Working Group, request for modification to the supplemental report for the Life PBR Exemption, to show the premiums for the group life that utilized an individual risk selection process and meets all of the requirements in VM-20 Section 1.B. as these premiums are currently grouped together with other Group Insurance in Exhibit 1. As there are other instances where the ordinary life premiums are not included in the determination of the Life PBR Exemption (e.g., for guaranteed issue policies), it may be useful to request addition of the breakdown of premiums used to determine the exemption.

Possible insertion between questions 1 and 2 for disclosure of premiums used in the determination of eligibility for the Life PBR exemption, split by ordinary life and group subject to an individual risk selection process and meeting all of the requirements in VM-20 Section 1.B.

<table>
<thead>
<tr>
<th>Life PBR Exemption as defined in the NAIC adopted Valuation Manual (VM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
</tr>
<tr>
<td>2.1</td>
</tr>
<tr>
<td>2.2</td>
</tr>
<tr>
<td>b.</td>
</tr>
<tr>
<td>2.3</td>
</tr>
<tr>
<td>b.</td>
</tr>
</tbody>
</table>
ACLI Comments on the NAIC Fall Meeting Exposure
January 31, 2020

Mr. Mike Boerner  
Chair, NAIC Life Actuarial Task Force (LATF)

Re: Amendment Proposal Forms (APFs) Exposed During NAIC Fall Meeting

Dear Mike:

The American Council of Life Insurers (ACLI)\(^1\) appreciates the opportunity to submit the following comments regarding the following APFs exposed during the NAIC 2019 Fall Meeting:

**APF 2019-33: Individually underwritten group life insurance**

ACLI has significant concerns with this amendment in its current form. We have two main areas of concern: the scope implied by the definition of “individual risk selection process” and practical implementation concerns.

Regarding scope, we believe that the wording may inadvertently loop in business not intended to be in scope. For example, something as simple as smoking status could be construed as “individual underwriting”, greatly expanding the business that would be impacted by this proposal. The use of underwriting as the criteria to define what is in scope for PBR is a simplification that could scope in traditional group life policies that are priced based on the unique claim costs of an employer group. We do not believe that is the intent of this APF. The definition of what is in scope for the APF requires additional contemplation.

Our second concern is around the practical implementation of the amendment. If individually underwritten group business becomes subject to PBR, it would have to follow the prescribed NPR requirements. However, the expected mortality and lapse rates for individually underwritten group business may be different than the prescribed mortality and lapse assumptions in VM-20. Compounding the problem, we are unaware of any experience studies that have been done on this type of business and deriving appropriate assumptions for other underwriting types, such as guaranteed issue and simplified issue, have proven difficult. Without potential adjustments to mortality and lapse rates for individually underwritten group business, companies may see excessive or nonsensical results for the NPR.

At this time, ACLI is unaware of a wide-spread issue associated with individually underwritten group business; we suspect this is more of a hypothetical problem. As such, we don’t see a pressing need for

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\(^1\) The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI’s member companies are dedicated to protecting consumers’ financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI’s 280 member companies represent 94 percent of industry assets in the United States.
this APF. We suggest that LATF continue to monitor this issue, and if changes are deemed necessary, LATF should request that the Academy make significant revisions to avoid excessive scope and unintended consequences.

**APF 2019-62: Considerations for term conversion reserves**
ACLI agrees with the American Academy of Actuaries' Life Reserves Work Group on the need to understand what mortality adjustments are being made for term conversions. We support this APF's improved disclosures associated with conversions.

**APF 2019-60: Allowance for additional credibility methods**
ACLI supports this amendment. This APF provides important flexibility around credibility methods for companies with simplified underwriting business.

**APF 2019-61: Clarification around secondary guarantee riders**
ACLI believes this APF is a straight-forward clarification around what constitutes a secondary guarantee, and supports this amendment.

We look forward to a discussion of these issues. Thank you.

Sincerely,

[Signature]

cc Reggie Mazyck, NAIC
APF 2019-33 Comments by John Robinson
APF 2019-33 – Individually Solicited Group Contracts

Comments by John Robinson, Minnesota
January 7, 2020

The APF mentions a revision to VM-51 to incorporate these contracts. However, no modifications to the VM-51 layout are offered.

APF 2019-56 addresses a series of important changes to the VM-51 layout, which will make it a multi-table system. I have previously commented that the table structure of the system needs to be carefully designed.

Adding group contracts will also require careful design considerations. For example, it is possible that fields should be added for

(a) Certificate Number (applicable to each covered individual in the group contract); and

(b) An indicator, “I” for individual”, and “G” for group, to tell whether a particular contract is individual or group.

A suggest that these considerations be included in the work currently being done for APF 2019-56.

Thank you.

John Robinson
Date: December 12, 2019

Please allow me to submit the following comment on behalf of Virginia regarding the following exposure:

**APF 2019-33 (Clarify definition of individually underwritten life insurance and applicability of PBR for group insurance)**

**Comment:**

Subsection 1.B under Section II. “Reserve Requirements” of the VM addresses minimum reserve requirements for “individual life contracts”. Since individual life and group life are two distinct and non-overlapping categories of contracts, the new proposed Subsection 1.B.1 which address certain group life contracts should not be placed under Subsection 1.B, but should be pulled out from under Subsection 1.B and made its own Subsection 1.C. Subsections 1.B.2 and 1.B.3 should also be pulled out from under Subsection 1.B. and renumbered.

**Suggested Edits to APF 2019-33:**

**Subsection 1: Life Insurance Products**

A. This subsection establishes reserve requirements for all contracts issued on and after the operative date of the *Valuation Manual* that are classified as life contracts as defined in SSAP No. 50 in the AP&P Manual, with the exception of annuity contracts and credit life contracts. Minimum reserve requirements for annuity contracts and credit life contracts are provided below in subsection 2 and subsection 5, respectively.

B. Minimum reserve requirements for variable and nonvariable individual life contracts—excluding guaranteed issue life contracts, preneed life contracts, industrial life contracts, and policies of companies exempt pursuant to the life PBR exemption in paragraph D below—are provided by VM-20, Requirements for Principle-Based Reserves for Life Products, except for election of the transition period in paragraph FC below. For this purpose, joint life policies are considered individual life.

C. Minimum reserve requirements for group life contracts in which the individual certificate holders were subjected to an individual risk selection process as described in VM-20 Section 1.B to obtain the insurance coverage are provided by VM-20, except for election of the transition period in paragraph F below.

D. Minimum reserve requirements of VM-20 are considered principle-based valuation requirements for purposes of the *Valuation Manual*.

E. Minimum reserve requirements for life contracts not subject to VM-20 are those pursuant to applicable requirements in VM-A and VM-C. For guaranteed issue life contracts issued after Dec. 31, 2018, mortality tables are defined in VM Appendix M – Mortality Tables (VM-M), and the same table shall be used for reserve requirements as is used for minimum nonforfeiture requirements as defined in VM-02, Minimum Nonforfeiture Mortality and Interest.
A company may elect to establish minimum reserves pursuant to applicable requirements in VM-A and VM-C for:

1. **Business described in paragraph C above and issued on or after the operative date of the Valuation Manual and prior to 1/1/2024.**

2. **Business not described in paragraph C otherwise subject to VM-20 requirements and issued during the first three years following the operative date of the Valuation Manual.**

A company electing to establish reserves using the requirements of VM-A and VM-C may elect to use the 2017 Commissioners’ Standard Ordinary (CSO) Tables as the mortality standard following the conditions outlined in VM-20 Section 3. If a company during the three years elects to apply VM-20 to a block of such business, then a company must continue to apply the requirements of VM-20 for future issues of this business.

**G.D. Life PBR Exemption**

1. A company meeting the condition in G.D.2 below may file a statement of exemption for ordinary life insurance policies and group life contracts individually underwritten life insurance policies, except for policies in G.D.3 below, issued directly or assumed during the current calendar year, that would otherwise be subject to VM-20. Such a statement must be filed with the domiciliary commissioner prior to July 1 of that year certifying that condition G.D.2 was met based on premiums from the prior calendar year annual statement. The statement of exemption must also be included with the NAIC filing for the second quarter of that year.

   The domiciliary commissioner may reject such statement prior to Sept. 1 and require the company to follow the requirements of VM-20 for the ordinary life policies covered by the statement.

2. **Condition for Exemption:**
   a. The company has less than $300 million of ordinary life premiums, and if the company is a member of an NAIC group of life insurers, the group has combined ordinary life premiums of less than $600 million.

3. **Policies Excluded from the Life PBR Exemption:**
   a. Universal life with secondary guarantee (ULSG) policies with a secondary guarantee that does not meet the VM-01, Definitions for Terms in Requirements, definition of a “non-material secondary guarantee.”

4. Each exemption, or lack of an exemption, applies only to policies issued or assumed in the current year, and it applies to all future valuation dates for those policies. The minimum reserve requirements for the ordinary life policies subject to the exemption are those pursuant to applicable methods required in VM-A and VM-C using the mortality as defined in VM-20 Section 3.C.1 and VM-M Section 1.H.

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*Footnote change*

- Premiums are measured as direct plus reinsurance assumed from an unaffiliated company from the ordinary life line of business reported in the prior calendar year life/health annual financial statement, Exhibit 1, Part 1, Column 3, “Ordinary Life Insurance”. For exemptions after 1/1/2024, premiums should also include the premiums from...
group life insurance certificates that were subject to an individual risk selection process as defined in VM-20 Section 1.B and included in the group life certificates subject to an individual risk selection process line of business reported in the prior calendar year life/health annual financial statement, VM-20 Reserves Supplement Part 3[A1].

Premiums should excluding premiums for guaranteed issue policies and preneed life contracts and excluding amounts that represent the transfer of reserves in force as of the effective date of a reinsurance assumed transaction and are reported in Exhibit 1 Part 1, Column 3 as ordinary life insurance premium. Preneed and guaranteed issue life insurance policy are as defined in VM-01.

Thank you for providing me the opportunity to submit this comment.

Craig Chupp, FSA, MAAA
Life and Health Insurance Actuary
Virginia Bureau of Insurance
craig.chupp@scc.virginia.gov
Phone: (804) 371-9131
Amendment Proposal Form 2020-03
Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force
Amendment Proposal Form*

1. Identify yourself, your affiliation and a very brief description (title) of the issue.

Identification:
Rachel Hemphill, Texas Department of Insurance

Title of the Issue:
Clarify NPR calculation requirements.

2. Identify the document, including the date if the document is “released for comment,” and the location in the document where the amendment is proposed:

VM-20 Section 3.B.1 – 3.B.3, and VM-20 Section 3.B.6.d.i

January 1, 2020 NAIC Valuation Manual

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted or changed by providing a red-line (turn on “track changes” in Word®) version of the verbiage. (You may do this through an attachment.)

See attached.

4. State the reason for the proposed amendment? (You may do this through an attachment.)

Clarify any confusion on whether more direct calculations of the NPR to reflect non-annual premium modes, etc., are allowed. The current guidance note in Section 3.B.3 states that these may be reflected either “directly or through adjusting accounting entries”. However, due to some confusion on this point, I suggest emphasizing that more direct calculation methods are not prohibited. This is consistent with SSAP 51R, Paragraph 24:

24. Since terminal reserves are computed as of the end of a policy year and not the reporting date, the terminal reserve as of policy anniversaries immediately prior and subsequent to the reporting date are adjusted to reflect that portion of the net premium that is unearned at the reporting date.
This is generally accomplished using either the mean reserve method or the mid-terminal method as discussed in paragraphs 25-28. Other appropriate methods, including an exact reserve valuation, may also be used.

For re-exposure, to address both the question posed in the initial exposure of clearly reflecting both mean and mid-terminal adjustments, as well as to address comments received, I recommend language consistent with SSAP 51R, paragraph 24. SSAP 51R paragraphs 25-28 are referenced by paragraph 24. They are provided below for completeness, and specific references for policies subject to the Valuation Manual are highlighted.

**Mean Reserve Method**

25. Under the mean reserve method, the policy reserve equals the average of the terminal reserve at the end of the policy year and the initial reserve (the initial reserve is equal to the previous year’s terminal reserve plus the net annual valuation premium for the current policy year). When reserves are calculated on the mean reserve basis, it is assumed that the net premium for a policy is collected annually at the beginning of the policy year and that policies are issued ratably over the calendar year.

26. However, as premiums are often received in installments more frequently than annually and since the calculation of mean reserves assumes payment of the current policy year’s entire net annual premium, the policy reserve is overstated by the amount of net modal premiums not yet received for the current policy year as of the valuation date. As a result, it is necessary to compute and report a special asset to offset the overstatement of the policy reserve.

27. This special asset is termed “deferred premiums.” Deferred premiums are computed by taking the gross premium (or premiums) extending from (and including) the modal (monthly, quarterly, semiannual) premium due date or dates following the valuation date to the next policy anniversary date and subtracting any such deferred premiums that have actually been collected. Deferred premium assets shall also be reduced by loading. Since the calculation of mean reserves assumes payment of the current policy year’s entire net annual premium, deferred premium assets are considered admitted assets to compensate for the overstatement of the policy reserve. For policies subject to the Valuation Manual requirements, the deferred premium asset will continue to be calculated for the net premium reserve component of the total principle-based reserve.

**Mid-Terminal Method**

28. Under the mid-terminal method, the policy reserves are calculated as the average of the terminal reserves on the previous and the next policy anniversaries. These reserves shall be accompanied by an unearned premium reserve consisting of the portion of valuation premiums paid or due covering the period from the valuation date to the next policy anniversary date. For policies subject to the Valuation Manual requirements, the adjustment to the unearned premium reserve will continue to be calculated for the net premium reserve component of the total principle-based reserve.

Since the guidance note at the end of Section 3.B.3 contains requirements and not just guidance, it should be taken out of a guidance note. This requires moving the four terms to Section 3.B.1 and updating two cross references in VM-20 Section 3.B.6.d.i.

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* This form is not intended for minor corrections, such as formatting, grammar, cross-references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

NAIC Staff Comments:
VM-20 Section 3.B.1 – 3.B.3

B. NPR Calculation

1. For the purposes of Section 3, the following terms apply:
   a. For purposes of this section, a policy with “multiple secondary guarantees” is one that: a) simultaneously has more than one shadow account; b) simultaneously has more than one cumulative premium type of guarantee; or c) simultaneously has at least one of each. A single shadow account with a variety of possible end dates to the secondary guarantee, depending on the policyholder’s choice of funding level, constitutes a single—not multiple—secondary guarantee.

Guidance Note:
Policy designs that are created simply to disguise guarantees or exploit a perceived loophole must be treated in a manner similar to more typical product designs with similar guarantees. If a policy contains multiple secondary guarantees, such that a subset of those secondary guarantees in combination represent an implicit guarantee that would produce a higher NPR if that implicit guarantee were treated as an explicit secondary guarantee of the policy, then the policy should be treated as if that implicit guarantee were an explicit guarantee. For example, if there were a policy with a “sequential secondary guarantee” where only one secondary guarantee applied at any given point in time but with a series of secondary guarantees strung together with one period ending when the next one began, the combined terms of the secondary guarantees would be regarded as a single secondary guarantee.

For the purposes of Section 3, the following terms apply:
   a-b. The “fully funded secondary guarantee” at any time is:
      a-i. For a shadow account secondary guarantee, the minimum shadow account fund value necessary to fully fund the secondary guarantee for the policy at that time. For any policy for which the secondary guarantee contractually cannot be fully funded in advance, this shall be the present value of the contractually permitted premium stream that would fully fund the guarantee at the earliest possible date (using the valuation interest rate and mortality standard specified in Section 3.C).
      b-ii. For a cumulative premium secondary guarantee, the amount of cumulative premiums required to have been paid to that time that would result in no future premium requirements to fully fund the guarantee, accumulated with any interest or accumulation factors per the contract provisions for the secondary guarantee. For any policy for which the secondary guarantee contractually cannot be fully funded in advance, this shall be the present value of the contractually permitted premium stream that would fully fund the guarantee at the earliest possible date (using the valuation interest rate and mortality standard specified in Section 3.C).

b-c. The “actual secondary guarantee” at any time is:
   a-i. For a shadow account secondary guarantee, the actual shadow account fund value at that time.
   b-ii. For a cumulative premium secondary guarantee, the actual premiums paid to that point in time, accumulated with any interest or accumulation factors per the contract provisions for the secondary guarantee.

c-d. The “level secondary guarantee” at any time is:
   a-i. For a shadow account secondary guarantee, the shadow account fund value that would have existed at that time assuming payment of the level gross premium determined according to Section 3.B.6.c.i.
For a cumulative premium secondary guarantee, the amount of cumulative level gross premiums determined according to Section 3.B.6.c.i, accumulated with any interest or accumulation factors per the contract provisions for the secondary guarantee.

2. The definition of the NPR in Section 3.B.4, Section 3.B.5 and Section 3.B.6 is intended to result in the calculation of a terminal NPR under the assumption of an annual mode gross premium. In Section 3.B.4, Section 3.B.5 and Section 3.B.6, the gross premium referenced should be the gross premium for the policy assuming an annual premium mode.

3. Since terminal NPRs are computed as of the end of a policy year and not the reporting date, the terminal NPR as of policy anniversaries immediately prior and subsequent to the reporting date are adjusted to reflect that portion of the net premium that is unearned at the reporting date. This is generally accomplished using either the mean reserve method or the mid-terminal method as discussed in SSAP 51R. Other appropriate methods, including an exact reserve valuation, may also be used.

Guidance Note: The definition of the NPR in Section 3.B.4, Section 3.B.5 and Section 3.B.6 is intended to result in a terminal NPR under the assumption of an annual mode gross premium. The gross premium referenced should be the gross premium for the policy assuming an annual premium mode. The reported reserve as of any valuation date should reflect the actual premium mode for the policy and the actual valuation date relative to the policy issue date either directly or through adjusting accounting entries.

VM-20 Section 3.B.6.d.i

As of the valuation date for the policy being valued, determine the actual secondary guarantee, denoted ASGx+t, as outlined in Section 3.B.2-1.c and the fully funded secondary guarantee, denoted FFSGx+t, as outlined in Section 3.B.1.b.
Amendment Proposal Form 2019-34
Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force
Amendment Proposal Form*

1. Identify yourself, your affiliation and a very brief description (title) of the issue.

   John Robinson, Director PBR – Valuation Actuary, MN

2. Identify the document, including the date if the document is “released for comment,” and the location in the document where the amendment is proposed:


3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted or changed by providing a red-line (turn on “track changes” in Word®) version of the verbiage. (You may do this through an attachment.)

4. State the reason for the proposed amendment? (You may do this through an attachment.)

   The purposes of this APF are to
   (a) Affirm that if a block of business is subject to SVL before being reinsured on a modco basis, it remains subject to SVL when reinsured on a modco basis.

   (b) Clarify the responsibilities of the appointed actuaries of both the ceding and assuming companies, relative to both the SAO and asset adequacy analysis.

   (c) Make a minor modification to the table headings in VM-30, Section 3.A.5.

   The proposed text is in the Appendix below.

* This form is not intended for minor corrections, such as formatting, grammar, cross-references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

NAIC Staff Comments:

<table>
<thead>
<tr>
<th>Dates: Received</th>
<th>Reviewed by Staff</th>
<th>Distributed</th>
<th>Considered</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: VM Maintenance Agenda 2019-34
APPENDIX

1. It is proposed to add the following text as VM-30, Section 4:

Section 4: Modified Coinsurance Reserves

1. A block of business that would be subject to Model #820 were it not reinsured under a modified coinsurance agreement remains subject to Model #820 if it is reinsured under a modified coinsurance agreement.

2. Reserves for a block of business that is subject to Model #820 and is reinsured under a modified coinsurance agreement, are subject to
   a. the statement of actuarial opinion of the ceding company’s appointed actuary (Section 3.A); and
   b. asset adequacy analysis (Section 3.B).

Guidance Note: The asset adequacy analysis may be performed by either the ceding or assuming company. The result of the asset adequacy analysis must be reported in the ceding company’s actuarial memorandum.

In accordance with Section 3.A.6, the ceding company’s appointed actuary may rely on the assuming company for data, assumptions and more, but may not simply rely on their actuarial opinion. Similarly, in accordance with Section 3.B.2, ceding company’s appointed actuary may rely on the assuming company’s actuarial memorandum, but may not simply rely on their actuarial opinion.

3. In the event that the assuming company is required, either by law or under the reinsurance agreement, to ensure the adequacy of such reserves, the assuming company shall perform an asset adequacy analysis (Section 3.B).

2. Revision to Section 3.A.5, Table Headings:

<table>
<thead>
<tr>
<th>Statement Item</th>
<th>Formula Reserves (1)</th>
<th>Principle-Based Reserves (2)</th>
<th>Additional Reserves * (3)</th>
<th>Analysis Method b</th>
<th>Other Amount Not Tested (4)</th>
<th>Total Amount = (1)+(2)+(3)+(4)</th>
</tr>
</thead>
</table>

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2021 GRET Recommendation
Life Actuarial (A) Task Force Presentation
2021 GRET Recommendation

Leon Langlitz, Chair, SOA Committee on Life

R. Dale Hall, Managing Director of Research, Society of Actuaries

2021 GRET Recommendation

LEON LANGLITZ, CHAIR SOA COMMITTEE ON LIFE INSURANCE COMPANY EXPENSES

SOCIETY OF ACTUARIES

NAIC LATF - August 4, 2020
The material and information contained in this presentation is for general information only. It does not replace independent professional judgment and should not be used as the basis for making any business, legal or other decisions. The Society of Actuaries assumes no responsibility for the content, accuracy or completeness of the information presented.
GRET Agenda

- Methodology
- Recommendation
- Comparison to Prior Years
- Information on Companies in Study
Methodology

• Select data points provided by NAIC from company
• SOA surveyed companies to determine Distribution Channels
• SOA analyzed data to derive unit expense factors by those Distribution Channels

Annual Statement Submissions
Additional Comments on Methodology

• Allocated expenses to acquisition and maintenance categories using the same seeds as has been previously used.

<table>
<thead>
<tr>
<th>Category/Policy</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition/Premium</td>
<td>$200.00</td>
</tr>
<tr>
<td>Acquisition/Face Amount</td>
<td>$1.10</td>
</tr>
<tr>
<td>Acquisition/Policy</td>
<td>50%</td>
</tr>
<tr>
<td>Maintenance/Policy</td>
<td>$60.00</td>
</tr>
</tbody>
</table>
### Proposed 2021 GRET Factors Based on Average of 2018/2019 Data

<table>
<thead>
<tr>
<th>Description</th>
<th>Acquisition per Policy</th>
<th>Acquisition per Unit</th>
<th>Acquisition per Premium</th>
<th>Maintenance per Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent</td>
<td>137.00</td>
<td>0.80</td>
<td>42%</td>
<td>50.00</td>
</tr>
<tr>
<td>Career</td>
<td>195.00</td>
<td>1.20</td>
<td>54%</td>
<td>64.00</td>
</tr>
<tr>
<td>Direct Marketing</td>
<td>214.00</td>
<td>1.20</td>
<td>54%</td>
<td>65.00</td>
</tr>
<tr>
<td>Niche Marketing</td>
<td>126.00</td>
<td>0.70</td>
<td>32%</td>
<td>38.00</td>
</tr>
<tr>
<td>Other*</td>
<td>126.00</td>
<td>0.70</td>
<td>32%</td>
<td>38.00</td>
</tr>
</tbody>
</table>

* Includes companies that did not respond to this or prior year surveys

---

### Current 2020 GRET Factors Based on Average of 2017/2018 Data

<table>
<thead>
<tr>
<th>Description</th>
<th>Acquisition per Policy</th>
<th>Acquisition per Unit</th>
<th>Acquisition per Premium</th>
<th>Maintenance per Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent</td>
<td>168.00</td>
<td>0.90</td>
<td>42%</td>
<td>50.00</td>
</tr>
<tr>
<td>Career</td>
<td>214.00</td>
<td>1.20</td>
<td>54%</td>
<td>64.00</td>
</tr>
<tr>
<td>Direct Marketing</td>
<td>217.00</td>
<td>1.20</td>
<td>54%</td>
<td>65.00</td>
</tr>
<tr>
<td>Niche Marketing</td>
<td>125.00</td>
<td>0.70</td>
<td>32%</td>
<td>38.00</td>
</tr>
<tr>
<td>Other*</td>
<td>140.00</td>
<td>0.80</td>
<td>35%</td>
<td>42.00</td>
</tr>
</tbody>
</table>

* Includes companies that did not respond to this or prior year surveys

---

### Proposal 2021 GRET Factors Based on Average of 2018/2019 Data

<table>
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<th>Description</th>
<th>Acquisition per Policy</th>
<th>Acquisition per Unit</th>
<th>Acquisition per Premium</th>
<th>Maintenance per Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent</td>
<td>195.00</td>
<td>0.90</td>
<td>42%</td>
<td>50.00</td>
</tr>
<tr>
<td>Career</td>
<td>214.00</td>
<td>1.20</td>
<td>54%</td>
<td>64.00</td>
</tr>
<tr>
<td>Direct Marketing</td>
<td>217.00</td>
<td>1.20</td>
<td>54%</td>
<td>65.00</td>
</tr>
<tr>
<td>Niche Marketing</td>
<td>126.00</td>
<td>0.70</td>
<td>32%</td>
<td>38.00</td>
</tr>
<tr>
<td>Other*</td>
<td>126.00</td>
<td>0.70</td>
<td>32%</td>
<td>38.00</td>
</tr>
</tbody>
</table>

* Includes companies that did not respond to this or prior year surveys

---

### Recommendation

...
Comparison to Prior Years

<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>Change Percentage</th>
<th>2020</th>
<th>Change Percentage</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent</td>
<td>$166</td>
<td>-1%</td>
<td>$168</td>
<td>1%</td>
<td>$167</td>
</tr>
<tr>
<td>Career</td>
<td>$214</td>
<td>0%</td>
<td>$214</td>
<td>-7%</td>
<td>$231</td>
</tr>
<tr>
<td>Direct Marketing</td>
<td>$195</td>
<td>-10%</td>
<td>$217</td>
<td>-2%</td>
<td>$221</td>
</tr>
<tr>
<td>Niche Marketing</td>
<td>$137</td>
<td>10%</td>
<td>$125</td>
<td>-10%</td>
<td>$139</td>
</tr>
<tr>
<td>Other*</td>
<td>$126</td>
<td>-10%</td>
<td>$140</td>
<td>3%</td>
<td>$136</td>
</tr>
</tbody>
</table>

* Includes companies that did not respond to this or prior year surveys

---

**Acquisition per Unit**

<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>Change Percentage</th>
<th>2020</th>
<th>Change Percentage</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent</td>
<td>$0.90</td>
<td>0%</td>
<td>$0.90</td>
<td>0%</td>
<td>$0.90</td>
</tr>
<tr>
<td>Career</td>
<td>$1.20</td>
<td>0%</td>
<td>$1.20</td>
<td>-8%</td>
<td>$1.30</td>
</tr>
<tr>
<td>Direct Marketing</td>
<td>$1.10</td>
<td>-8%</td>
<td>$1.20</td>
<td>0%</td>
<td>$1.20</td>
</tr>
<tr>
<td>Niche Marketing</td>
<td>$0.80</td>
<td>14%</td>
<td>$0.70</td>
<td>-13%</td>
<td>$0.80</td>
</tr>
<tr>
<td>Other*</td>
<td>$0.70</td>
<td>-13%</td>
<td>$0.80</td>
<td>14%</td>
<td>$0.70</td>
</tr>
</tbody>
</table>

* Includes companies that did not respond to this or prior year surveys
## Comparison to Prior Years

### Acquisition Per Premium

<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>Change</th>
<th>2020</th>
<th>Change</th>
<th>2021</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent</td>
<td>42%</td>
<td>2%</td>
<td>42%</td>
<td>0%</td>
<td>42%</td>
<td>Other*</td>
</tr>
<tr>
<td>Career</td>
<td>54%</td>
<td>0%</td>
<td>54%</td>
<td>-7%</td>
<td>58%</td>
<td>Direct Marketing</td>
</tr>
<tr>
<td>Direct Marketing</td>
<td>49%</td>
<td>-9%</td>
<td>54%</td>
<td>-2%</td>
<td>55%</td>
<td>%</td>
</tr>
<tr>
<td>Niche Marketing</td>
<td>34%</td>
<td>6%</td>
<td>32%</td>
<td>-9%</td>
<td>35%</td>
<td>%</td>
</tr>
<tr>
<td>Other*</td>
<td>32%</td>
<td>-9%</td>
<td>35%</td>
<td>3%</td>
<td>34%</td>
<td>%</td>
</tr>
</tbody>
</table>

*Includes companies that did not respond to this or prior year surveys.

### Maintenance Per Policy

<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>Change</th>
<th>2020</th>
<th>Change</th>
<th>2021</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent</td>
<td>$50</td>
<td>0%</td>
<td>$50</td>
<td>0%</td>
<td>$50</td>
<td>Other*</td>
</tr>
<tr>
<td>Career</td>
<td>$64</td>
<td>0%</td>
<td>$64</td>
<td>-7%</td>
<td>$69</td>
<td>Direct Marketing</td>
</tr>
<tr>
<td>Direct Marketing</td>
<td>$59</td>
<td>-9%</td>
<td>$65</td>
<td>-2%</td>
<td>$66</td>
<td>%</td>
</tr>
<tr>
<td>Niche Marketing</td>
<td>$41</td>
<td>8%</td>
<td>$38</td>
<td>-10%</td>
<td>$42</td>
<td>%</td>
</tr>
<tr>
<td>Other*</td>
<td>$38</td>
<td>-10%</td>
<td>$42</td>
<td>2%</td>
<td>$41</td>
<td>%</td>
</tr>
</tbody>
</table>

*Includes companies that did not respond to this or prior year surveys.

---

**Competition Per Premium**
Information on Companies in Study

The following percentages of companies responded that GET factors are used for individual life sales illustration purposes:

- 2020 Survey: 29%
- 2019 Survey: 26%
- 2018 Survey: 28%
- 2017 Survey: 30%
- 2016 Survey: 26%

We believe variation is a result of the mix of respondents and the limited number of responses.

Information on Companies in Study
• Included 292 companies in this year's study
• Decrease of 34 companies from last year's study.
• This is due to companies that are new outliers or have large premiums which fall outside the preset range.

There were a total of 776 companies originally in the data received from the NAIC in this year's data extraction versus 722 in last year.

However, total ordinary policies issued for these 776 companies remained essentially flat (14,000 more policies out of a total of 9.9M) over the prior year.

Face amount issued increased by 6.1% over the prior year.

Included 292 companies in this year's study.
Questions?
2021 GRET Recommendation Letter
TO: Reggie Mazyck, NAIC  
FROM: Dale Hall, Managing Director of Research, Society of Actuaries (SOA)  
       Leon Langlitz, Chair, SOA Committee on Life Insurance Company Expenses  
DATE: July 23, 2020  
RE: 2021 Generally Recognized Expense Table (GRET) – SOA Analysis

Dear Mr. Mazyck:

As in previous years, the Society of Actuaries expresses its thanks to NAIC staff for their assistance and responsiveness in providing Annual Statement expense and unit data for the 2021 GRET analysis for use with individual life insurance sales illustrations. The analysis is based on expense and expense related information reported on companies’ 2018 and 2019 Annual Statements. This project has been completed to assist the Life Actuarial Task Force (LATF) in its consideration of potential revisions to the GRET that could become effective for calendar year 2021. This memo describes the analysis and resultant findings.

NAIC staff provided Annual Statement data for life insurance companies for calendar years 2018 and 2019. This included data from 722 companies in 2018 and 776 companies in 2019. This increase breaks the trend of small decreases over the previous few years. Of the total companies, 292 were in both years and passed the outlier exclusion tests and were included as a base for the GRET factors (326 companies passed similar tests last year).

APPROACH USED

The methodology for calculating the recommended GRET factors based on this data is similar to that followed the last several years. The methodology was last altered in 2015. The changes made at that time can be found in the recommendation letter sent to LATF on July 30, 20151.

To calculate updated GRET factors, the average of the factors from the two most recent years (2018 and 2019 for those companies with data available for both years) of Annual Statement data was used. For each company an actual-to-expected ratio was calculated. Companies with ratios that fell outside predetermined parameters were excluded. This process was completed three times to stabilize the average rates. The boundaries of the exclusions have been modified from time to time; however, there were no adjustments made this year. Unit expense seed factors (the seeds for all distribution channel categories are the same), as shown in Appendix B, were used to compute total expected expenses. Thus, these seed factors were used to implicitly allocate expenses between acquisition and maintenance expenses, as well as among the three acquisition expense factors (on a direct of ceded reinsurance basis).

Companies were categorized by their reported distribution channel (four categories were used as described in Appendix A included below). There remain a significant number of companies for which no distribution channel was provided, as no responses to the annual surveys have been received from those companies. The characteristics of these companies vary significantly, including companies not currently writing new business or whose major line of business is not individual life insurance. Any advice or assistance from LATF

1 https://www.soa.org/Files/Research/Projects/research-2016-gret-recommendation.pdf
in future years to increase the response rate to the surveys of companies that submit Annual Statements in order to reduce the number of companies in the “Other” category would be most welcomed. The intention is to continue surveying the companies in future years to enable enhancement of this multiple distribution channel information.

Companies were excluded from the analysis if (1) their actual to expected ratios were considered outliers, often due to low business volume, (2) the average first year and single premium per policy were more than $40,000, (3) they are known reinsurance companies or (4) their data were not included in both years of the data supplied by the NAIC. To derive the overall GRET factors, the unweighted average of the remaining companies’ actual-to-expected ratios for each respective category was calculated. The resulting factors were rounded, as shown in Table 1.

THE RECOMMENDATION
The above methodology results in the proposed 2021 GRET values shown in Table 1. To facilitate comparisons, the current 2020 GRET factors are shown in Table 2. Further characteristics of the type of companies represented in each category are included in the last two columns in Table 1, including the average premium per policy issued and the average face amount ($000s) per policy issued.

To facilitate comparisons, the current 2020 GRET factors are shown in Table 2. Further characteristics of the type of companies represented in each category are included in the last two columns in Table 1, including the average premium per policy issued and the average face amount ($000s) per policy issued.

**TABLE 1**
PROPOSED 2021 GRET FACTORS, BASED ON AVERAGE OF 2018/2019 DATA

<table>
<thead>
<tr>
<th>Description</th>
<th>Acquisition per Policy</th>
<th>Acquisition per Unit</th>
<th>Acquisition per Premium</th>
<th>Maintenance per Policy</th>
<th>Companies Included</th>
<th>Average Premium Per Policy Issued During Year</th>
<th>Average Face Amt (000) Per Policy Issued During Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent</td>
<td>$166</td>
<td>$0.90</td>
<td>42%</td>
<td>$50</td>
<td>121</td>
<td>2,916</td>
<td>194</td>
</tr>
<tr>
<td>Career</td>
<td>214</td>
<td>1.20</td>
<td>54%</td>
<td>64</td>
<td>63</td>
<td>2,517</td>
<td>195</td>
</tr>
<tr>
<td>Direct Marketing</td>
<td>195</td>
<td>1.10</td>
<td>49%</td>
<td>59</td>
<td>15</td>
<td>2,933</td>
<td>119</td>
</tr>
<tr>
<td>Niche Marketing</td>
<td>137</td>
<td>0.80</td>
<td>34%</td>
<td>41</td>
<td>26</td>
<td>590</td>
<td>11</td>
</tr>
<tr>
<td>Other*</td>
<td>126</td>
<td>0.70</td>
<td>32%</td>
<td>38</td>
<td>67</td>
<td>836</td>
<td>29</td>
</tr>
</tbody>
</table>
* Includes companies that did not respond to this or prior year surveys 292

**TABLE 2**
CURRENT 2020 GRET FACTORS, BASED ON AVERAGE OF 2017/2018 DATA

<table>
<thead>
<tr>
<th>Description</th>
<th>Acquisition per Policy</th>
<th>Acquisition per Unit</th>
<th>Acquisition per Premium</th>
<th>Maintenance per Policy</th>
<th>Companies Included</th>
<th>Average Premium Per Policy Issued During Year</th>
<th>Average Face Amt (000) Per Policy Issued During Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent</td>
<td>$168</td>
<td>$0.90</td>
<td>42%</td>
<td>$50</td>
<td>118</td>
<td>3,263</td>
<td>200</td>
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<tr>
<td>Career</td>
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<td>1.20</td>
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<td>64</td>
<td>63</td>
<td>2,661</td>
<td>217</td>
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<tr>
<td>Direct Marketing</td>
<td>217</td>
<td>1.20</td>
<td>54%</td>
<td>65</td>
<td>20</td>
<td>2,489</td>
<td>213</td>
</tr>
<tr>
<td>Niche Marketing</td>
<td>125</td>
<td>0.70</td>
<td>32%</td>
<td>38</td>
<td>21</td>
<td>757</td>
<td>13</td>
</tr>
<tr>
<td>Other*</td>
<td>140</td>
<td>0.80</td>
<td>35%</td>
<td>42</td>
<td>104</td>
<td>876</td>
<td>34</td>
</tr>
</tbody>
</table>
* Includes companies that did not respond to this or prior year surveys 326
In previous recommendations, an effort was made to reduce volatility in the GRET factors from year-to-year by limiting the change in GRET factors between years to about ten percent of the prior value. The changes from the 2020 GRET were reviewed to ensure that a significant change was not made in this year’s GRET recommendation. The Direct Marketing and Other distribution channel categories experienced a change greater than ten percent so the factors for this line were capped at the ten percent level (the Acquisition per unit factor changed somewhat more than 10% because of rounding) from the corresponding 2020 GRET values. The volatility occurred due to the change in the composition of the companies in this category where a small number of companies were included.

**USAGE OF THE GRET**

This year’s survey, responded to by companies’ Annual Statement correspondent, included a question regarding whether the 2020 GRET table was used in its illustrations by the company. Last year, 26% of the responders indicated their company used the GRET for sales illustration purposes, with similar percentage results by size of company; this contrasted with about 28% in 2018. This year, 29% of responding companies indicated that they used the GRET in 2019 for sales illustration purposes. The range was from 22% for Direct Marketing to 48% for career carriers. Based on the information received over the last several years, the variation in GRET usage appears to be in large part due to the relatively small sample size and different responders to the surveys.

We hope LATF finds this information helpful and sufficient for consideration of a potential update to the GRET. If you require further analysis or have questions, please contact Dale Hall at 847-273-8835.

Kindest personal regards,

Dale Hall, FSA, MAAA, CERA, CFA  
Managing Director of Research  
Society of Actuaries

Leon Langlitz, FSA, MAAA  
Chair, SOA Committee on  
Life Insurance Company Expenses
APPENDIX A — DISTRIBUTION CHANNELS

The following is a description of distribution channels used in the development of recommended 2021 GRET values:

1. **Independent** — Business written by a company that markets its insurance policies through an independent insurance agent or insurance broker not primarily affiliated with any one insurance company. These agencies or agents are not employed by the company and operate without an exclusive distribution contract with the company. These include most PPGA arrangements.

2. **Career** — Business written by a company that markets insurance and investment products through a sales force primarily affiliated with one insurance company. These companies recruit, finance, train, and often house financial professionals who are typically referred to as career agents or multi-line exclusive agents.

3. **Direct Marketing** — Business written by a company that markets its own insurance policies direct to the consumer through methods such as direct mail, print media, broadcast media, telemarketing, retail centers and kiosks, internet or other media. No direct field compensation is involved.

4. **Niche Marketers** — Business written by home service, pre-need, or final expense insurance companies as well as niche-market companies selling small face amount life products through a variety of distribution channels.

5. **Other** — Companies surveyed were only provided with the four options described above. Nonetheless since there were many companies for which we did not receive a response (or whose response in past years’ surveys confirmed an “other” categorization (see below), values for the “other” category are given in the tables in this memo. It was also included to indicate how many life insurance companies with no response (to this survey and prior surveys) and to indicate whether their exclusion has introduced a bias into the resulting values.
APPENDIX B – UNIT EXPENSE SEEDS

The expense seeds used in the 2014 and prior GRETs were differentiated between branch office and all other categories, due to the results of a relatively old study that had indicated that branch office acquisition cost expressed on a per Face Amount basis was about double that of other distribution channels. Due to the elimination of the branch office category in the 2015 GRET, non-differentiated unit expense seeds have been used in the current and immediately prior studies.

The unit expense seeds used in the 2021 GRET and the 2020 GRET recommendations were based on the average of the 2006 through 2010 Annual SOA expense studies. These studies differentiated unit expenses by type of individual life insurance policy (term and permanent coverages). As neither the GRET nor the Annual Statement data provided differentiates between these two types of coverage, the unit expense seed was derived by judgment based this information. The following shows the averages derived from the Annual SOA studies and the seeds used in this study. Beginning with the 2019 Annual Statement submission this information will become more readily available.

<table>
<thead>
<tr>
<th>2006-2010 (AVERAGE) CLICE STUDIES:</th>
<th>Acquisition/ Policy</th>
<th>Acquisition/ Face Amount (000)</th>
<th>Acquisition/ Premium</th>
<th>Maintenance/ Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weighted Average</td>
<td>$149</td>
<td>$0.62</td>
<td>38%</td>
<td>$58</td>
</tr>
<tr>
<td>Unweighted Average</td>
<td>$237</td>
<td>$0.80</td>
<td>57%</td>
<td>$76</td>
</tr>
<tr>
<td>Median</td>
<td>$196</td>
<td>$0.59</td>
<td>38%</td>
<td>$64</td>
</tr>
<tr>
<td>Permanent</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weighted Average</td>
<td>$167</td>
<td>$1.43</td>
<td>42%</td>
<td>$56</td>
</tr>
<tr>
<td>Unweighted Average</td>
<td>$303</td>
<td>$1.57</td>
<td>49%</td>
<td>$70</td>
</tr>
<tr>
<td>Median</td>
<td>$158</td>
<td>$1.30</td>
<td>41%</td>
<td>$67</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CURRENT UNIT EXPENSE SEEDS:</th>
<th>Acquisition/ Policy</th>
<th>Acquisition/ Face Amount (000)</th>
<th>Acquisition/ Premium</th>
<th>Maintenance/ Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>All distribution channels</td>
<td>$200</td>
<td>$1.10</td>
<td>50%</td>
<td>$60</td>
</tr>
</tbody>
</table>
Society of Actuaries Research Update
The Society of Actuaries assumes no responsibility for the content, accuracy or completeness of the information presented. It does not replace independent professional judgment and should not be used as the basis for making any business, legal or other decisions. The material and information contained in this presentation is for general information only. It does not replace independent professional judgment and should not be used as the basis for making any business, legal or other decisions.
SOA COVID-19 Research

• COVID-19 Key Statistics Update
• 2021 Health Care Cost Model
• COVID-19 Pulse Surveys
• COVID-19 Research Briefs
• University Data
• Tabulation tool for John Hopkins University Data
• Defined Benefit Plans and COVID-19
• Impact of COVID-19 on Aging
• SOA COVID-19 Updates

More...
COVID-19 Impact on Group Life Insurance

• Group Life COVID-19 Survey
• Requested monthly mortality claims & exposure, starting with 5/2020
• Use 2018-2019 as baseline for comparing 2020 emerging experience
• Optional segment information also requested: state, industry, age/gender, cause of death
• Results
  • Monthly reports to contributors
  • Industry report and updates to public
  • Optional segment information also requested: state, industry, age/gender, cause of death
  • Requested monthly mortality claims & exposure, starting with 5/2020

COVID-19 Impact on Group Life Insurance
COVID-19 Impact on Individual Life Insurance

• Individual Life COVID-19 Study
  • Designing a data request for periodic (monthly?) submission mortality claims & exposure
  • Use 2018-2019 as baseline for comparing 2020 emerging experience
  • Include age/gender, duration, product type, cause of death (if available)

• Results
  • Summary reports to contributors
  • Industry report and updates to public
### SOA Experience Studies

**Project Name** | **Objective** | **Expected Completion Date**
--- | --- | ---
COVID-19 Cash Flow Testing, April 23, 2020 | A pulse survey aimed at obtaining a quick read on how the COVID-19 pandemic is impacting insurance companies and reinsurers cash flow. | Complete. On SOA website. 1
COVID-19 Mortality Data Sources in the U.S. | Complete a brief on COVID-19 mortality. | Complete. On SOA website. 2
COVID-19 Mortality Modeling Survey, April 13, 2020 | A pulse survey aimed at obtaining a quick read on how the COVID-19 pandemic is impacting insurance companies and reinsurers mortality modeling. | Complete. On SOA website. 3
COVID-19 New Business and Product Survey, April 29, 2020 | A pulse survey aimed at obtaining a quick read on how the COVID-19 pandemic is impacting insurance companies and reinsurers new business and products. | Complete. On SOA website. 4
<table>
<thead>
<tr>
<th>Project Name</th>
<th>Objective</th>
<th>Expected Completion Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 Emerging Risk Survey (13th)-Key Finding Report</td>
<td>Provide highlights of the research report that track the trends and thoughts of risk managers across all countries.</td>
<td>7/31/2020</td>
</tr>
<tr>
<td>Connecting Emerging COVID-19 Data to Insured Claims, updated April 23, 2020</td>
<td>This report pulls emerging U.S. COVID-19 hospitalization data and deaths obtained from the Centers for Disease Control and Prevention's COVIDView, and compares it to data from past U.S. influenza seasons.</td>
<td>7/31/2020</td>
</tr>
<tr>
<td>COVID-19 Asset/Liability Management (ALM) Survey, May 7, 2020</td>
<td>The report will examine the extent to which COVID-19 has impacted insurance companies and their exposure to COVID-19 pandemic.</td>
<td>7/31/2020</td>
</tr>
<tr>
<td>Reinsurance Policy Recapture</td>
<td>This report will provide an inventory of the reinsurance policy recapture treaty provisions and terms across the industry.</td>
<td>7/31/2020</td>
</tr>
<tr>
<td>Macroeconomics based Economic Scenario Generator</td>
<td>Produce a research report aligned with a set of programs in the community.</td>
<td>3/31/2020</td>
</tr>
<tr>
<td>US Mortality by Socioeconomic Category</td>
<td>Determine the impact of climate change on insurance risks and the global community-Phase II: Development of an economic scenario generator.</td>
<td>3/31/2020</td>
</tr>
<tr>
<td>Negative Interest Rates</td>
<td>Economic indicators for a quick read on low interest rates and their long-term impact on the insurance industry.</td>
<td>3/31/2020</td>
</tr>
<tr>
<td>Simplified Mortality</td>
<td>Calculate the time required for each insured life to die under different mortality scenarios.</td>
<td>3/31/2020</td>
</tr>
<tr>
<td>COVID-19 Asset/Liability Management (ALM) Survey, May 7, 2020</td>
<td>Examine the potential impact of sustained negative interest rates on the insurance industry.</td>
<td>3/31/2020</td>
</tr>
<tr>
<td>Ties to Normalized Weather-Related Property Losses in the United States: 1960–2018</td>
<td>Determine the impact of climate change on insurance risks and the global community.</td>
<td>3/31/2020</td>
</tr>
<tr>
<td>Simplified Mortality</td>
<td>Calculate the time required for each insured life to die under different mortality scenarios.</td>
<td>3/31/2020</td>
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<td>3/31/2020</td>
</tr>
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<td>3/31/2020</td>
</tr>
<tr>
<td>Simplified Mortality</td>
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<td>3/31/2020</td>
</tr>
<tr>
<td>Simplified Mortality</td>
<td>Calculate the time required for each insured life to die under different mortality scenarios.</td>
<td>3/31/2020</td>
</tr>
</tbody>
</table>
Life Mortality Improvement Subgroup (LMISG)
2020 Life MI Scale Recommendation
SCALE RECOMMENDATION

(1MISG) 2020 LIFE M1
IMPROVEMENT SUBGROUP
LIFE MORTALITY
Agenda for Discussion

1. Objective for the annual mortality improvement (MI) scale updates
3. Considerations for 2020
4. LMISG 2020 recommendation
5. Future issues

Objective for the annual mortality improvement (MI) scale updates
LMISG 2020 recommendation
Future issues
Addresses VM20 Incorporation of MI: Section 9C3g Address of Annual MI Scale Updates

1. Mortality Improvement Rates for AG-35 for Year-End YYYY

Guidance Note: Mortality Improvement Rates for the industry basic table will be determined by the SOA website. www.soa.org/ResearchCourses/mortality-experience-study.html. However, historically mortality Improvement from the date of the valuation date will not be incorporated beyond the valuation date.

9C.2: h. As the industry basic tables have already been improved from the mid-point of the exposure period of the data underlying the table to the year of the table e.g. the 2015 VBT has already been improved from the mid-point of the underlying data supporting the table to 2015.

Guidance Note: The start date for the improvement factors to be applied to the industry basic tables SOA YYYY is the calendar year of validation.
Objective of Annual MI Scale Updates

Level of Event Covered – Reserve vs Capital: VM Introduction

Overview of Reserve Concepts
Our annual update exercise seeks to apply judgment to historical mortality improvement (or deterioration) data to arrive at a set of mortality rates that can be used to calculate reserves for future events.
Most recent relevant historical MI data (10-year moving average)

Weighted average of historical data and forecasted expectations

Most recent forecast of future improvements over future period (20 years)

Before manual smoothing

Preliminary 2020 – Current Methodology
Considerations for 2020 & beyond

• Data - we don’t have sufficient data to fully understand the impact of the COVID-19-related mortality shock on the insured population (anecdotal reports from companies indicate they are seeing a smaller shock).

• First group to consider the impact of a short-term shock event – setting a precedent for other future MI scale updates - reflecting a shock in 2020 does not seem in line with the goals for the MI scale work

• Precedent for other excess mortality events

• MI scale updates - reflecting a shock in 2020 does not seem in line with the goals for the MI scale work

2008/2009 influenza season and the effect of the opioid epidemic – the methodology was not adjusted for those events.

• The current methodology uses a moving average to “smooth out” the impact of any one year or event

• First group to consider the impact of a short-term shock event – setting a precedent for other future MI scale work

• Precedent for other excess mortality events

• MI scale updates - reflecting a shock in 2020 does not seem in line with the goals for the MI scale work

2008/2009 influenza season and the effect of the opioid epidemic – the methodology was not adjusted for those events.

Conversely, some experts and models indicate the 2020/2021 COVID-19 shock is mainly a moving forward of deaths that impacts from deaths in health care and/or testing for early detection of dread diseases, etc.; however, COVID-19 may have potential longer-term impacts that may arise from survivor impaired health. Health epidemic.

Are shock events more appropriately reflected in capital planning rather than reserves?

Data - we don’t have sufficient data to fully understand the impact of the COVID-19-related mortality shock on
Apply the historical methodology for 2020 consistent with the past scale updates (2013–2019).

Implications:

- The 10-year historical average in the 2022 scale update will include a "smoothed" impact of the shock as part of the usual methodology.
- There will be no specific impact included for the pandemic shock effect for the 2020 scale.
Future Issues

- Insured vs. general population impacts
- Some evidence that impact on insured population will be less
- SOA "socioeconomic decile" study will provide some guidance here
- Insurer vs. general population impacts
- Will COVID-19 have a long-term impact on mortality improvement rates, and what will the impact be?
  - Lower due to survivor impaired health as well as the indirect effect arising from the virus delaying the early condition diagnosis of dread diseases and preventive treatments?
  - Higher due to greater application of good hygiene habits (e.g., social distancing and washing hands) and/or higher utilization of other vaccines (such as the annual influenza shot)?
- Need to understand the impact in terms of potential effects on future slope and size of MI averaging periods (ex., consideration of consistent framework and changes to the current methodology)
General Population:

Pattern of excess deaths vs general mortality:

A/E Ratios – COVID-19 vs 2015 VBT

- Actual deaths = COVID-19

Slope of VBT matches COVID-19 female rates better than male rates.

Small ratios >> only 1 cause of death (COD) in numerator; all CODs in denominator.

<table>
<thead>
<tr>
<th>All Ages</th>
<th>U.S. Male</th>
<th>U.S. Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;1</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>1-4</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>5-14</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>15-24</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>25-34</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>35-44</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>45-54</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>55-64</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>65-74</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>75-84</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>&gt;85</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Actual deaths = COVID-19 2015 VBT
2013-2019 MI Scale Update Reports

2013 Scale:
https://www.soa.org/resources/experience-studies/2013/mortality-improvement-
2013-

2014 Scale:
https://www.soa.org/resources/experience-studies/2014/research-2014-mort-improv-
rates-

2015 Scale:
https://www.soa.org/resources/experience-studies/2015/mortality-improvement-
2015-

2016 Scale:
https://www.soa.org/resources/experience-studies/2016/research-mort-improvemen-
t-2016-

2017 Scale:
https://www.soa.org/resources/experience-studies/2017/mortality-improvement-
2017-

2018 Scale:
https://www.soa.org/resources/experience-studies/2018/2018-mortality-improvement-
2018-

2019 Scale:
https://www.soa.org/resources/experience-studies/2019/mortality-improvement/

2013-2019 MI Scale Update Reports
Principle-Based Reserves (PBR) Resources
From the Life Practice Council
Principle-Based Reserves (PBR) Resources From the Life Practice Council of the American Academy of Actuaries

Donna Claire, MAAA, FSA, CERA, Chairperson, PBR Governance Work Group
Go to actuary.org and click on Principle-based Reserving (navigation bar on right or bottom)

OR

www.actuary.org/content/pbr-practice

Page includes a PBR Toolkit
Academy PBR Toolkit

Implementation Tools: Resources that provide tools and frameworks to assist actuaries in implementing principle-based valuations.

• Principle-Based Approach Protocols
• Principle-Based Reserves
• VM-20 Practice Note
• ASOP No. 52: Principle-Based Reserves

PBR Overview: Resources that provide industry practices and guidance in the mechanics of PBR, as well as implementing a principle-based valuation.

• The Details Behind PBR
• PBR Checklist

Model Governance Practice

• Model Governance Checklist

Practice Note

• VM-20 Practice Note
• VM-22 Practice Note
• Principle-Based Approach Protocols
NAIC Resources

- 2017 PBR Review Report
- 2018 PBR Review Report
- Life Actuarial (A) Task Force of the NAIC
- NAIC Impact Study of VM-20 on PBR for Life Insurance
- VM-20 / VM-22 Tables
- SVL Model Law
- Valuation Manual Versions and Amendments
- Valuation Manual, published January 2020
- Valuation Manual 2019-2020 Comparison
Read reports from Life Practice

- RBC Requirements Under PBR
- Long Term Care Issues (VM-25)
- Fixed Annuity Issues (VM-22)
- Variable Annuity Issues (VM-21)
- Life Insurance Issues (VM-20)

Council Groups to the NAIC on the principle-based project.

Life Perspectives

SVL Legislation in Brief
PBR Practice Notes Archive

Read all Academy public statements related to PBR

Academy Presentations and Statements on PBR

Practice Note Archive

Examining Insurers of Life and Health Insurers

Common Practices of Examining Actuaries Involved in Statutory Financial Solvency

Model Governance (April 2017)

Principle-Based Approach Projections (December 2019)

Life Principle-Based Reserves Under VM-20 (April 2020)
What are the minimum requirements an actuary should consider to be qualified to render opinions related to PBR under the U.S. Qualification Standards? This question and answer came from the Academy’s Committee on Qualifications, which developed a list of frequently asked questions for actuaries.

**PBR Qualification Standards Response on PBR**

**More ASOPs**

- ASOP No. 52, Principle-Based Reserves for Life Products under the NAIC Valuation Manual
- ASOPs Relevant to PBR (cont.)
Academy is having a 4-day (5½ hours a day) seminar virtually September 14–17.

Registration will open soon!

For more info, please visit: https://www.actuary.org/pbr2020

Preparing Reports and for Audits, Regulatory Updates: September 17

Variable Annuity Topics: September 16

Life Topics: September 14 & 15

Life Topics: September 14 & 15

For more info, please visit: https://www.actuary.org/pbr2020
Academy group under Pat Allison is developing ways to display PBR (and other) data: Such as: waterfalls, trend analysis graphs.

Goal is to have this done in 2020

Advantages: one picture is worth a 1,000 words

PBR Analysis Template
Questions/Suggestions

Anything else the Academy can do to assist you with PBR implementation and/or education?
Contact

Donna Claire, MAAA, FSA, CERA, Chairperson, PBR Governance Work Group

Ian Trepanier, Life Policy Analyst, American Academy of Actuaries