MEETING MATERIALS PACKET

LIFE ACTUARIAL (A) TASK FORCE

August 11-12, 2024

NAIC SUMMER NATIONAL MEETING

August 11 - 12, 2024

TABLE OF CONTENTS



Draft date: 7/31/24

*2024 Summer National Meeting*
*Chicago, Illinois*

**LIFE ACTUARIAL (A) TASK FORCE**
Sunday, August 11, 2024
8:00 a.m. – 4:30 p.m.
Hyatt Regency McCormick Place—Regency Ballroom—Level 2

Monday, August 12, 2024
8:00 a.m. – 10:00 a.m.
Hyatt Regency McCormick Place—Regency Ballroom—Level 2

**ROLL CALL**

| **Member** | **Representative** | **State** |
|---|---|---|
| Cassie Brown, Chair | Rachel Hemphill | Texas |
| Scott A. White, Vice Chair | Craig Chupp | Virginia |
| Mark Fowler | Sanjeev Chaudhuri | Alabama |
| Lori K. Wing-Heier | Sharon Comstock | Alaska |
| Peni Itula Sapini Teo | Elizabeth Perri | American Samoa |
| Ricardo Lara | Ahmad Kamil | California |
| Andrew N. Mais | Wanchin Chou | Connecticut |
| Ann Gillespie | Vincent Tsang | Illinois |
| Amy L. Beard | Scott Shover | Indiana |
| Doug Ommen | Mike Yanacheak | Iowa |
| Vicki Schmidt | Nicole Boyd | Kansas |
| Robert L. Carey | Marti Hooper | Maine |
| Grace Arnold | Fred Andersen | Minnesota |
| Chlora Lindley-Myers | William Leung | Missouri |
| Eric Dunning | Margaret Garrison | Nebraska |
| D.J. Bettencourt | Jennifer Li | New Hampshire |
| Justin Zimmerman | Seong-min Eom | New Jersey |
| Adrienne A. Harris | Bill Carmello | New York |
| Judith L. French | Peter Weber | Ohio |
| Glen Mulready | Andrew Schallhorn | Oklahoma |
| Michael Humphreys | Steve Boston | Pennsylvania |
| Jon Pike | Tomasz Serbinowski | Utah |

NAIC Support Staff: Scott O'Neal/Jennifer Frasier

**AGENDA**

**Sunday, August 11, 2024**

| | | |
|---|---|---|
| 8:00 – 8:05 a.m. | 1. | Call to Order/Roll Call/Consider Adoption of its Minutes and Written Subgroup Reports—*Rachel Hemphill (TX)* |
| 8:05 – 8:50 a.m. | 2. | Receive an Update on the NAIC's Mortality Experience Data Collection, Consider Adoption of the Report of the Experience Reporting (A) Subgroup, and Consider Exposure of Amendment Proposal Form (APF) 2024-12—*Fred Andersen (MN) and Pat Allison (NAIC)* |
| 8:50 – 9:00 a.m. | 3. | Consider Adoption of the Report of the Valuation Manual (VM)-22 (A) Subgroup—*Elaine Lam (CA)* |
| 9:00 – 9:30 a.m. | 4. | Receive an Update on the Generator of Economic Scenarios (GOES) Field Test and Consider Adoption of the Report of the GOES (E/A) Subgroup—*Mike Yanacheak (IA) and Scott O'Neal (NAIC)* |
| 9:30 – 9:45 a.m. | | Break |
| 9:45 – 10:30 a.m. | 5. | Consider Exposure of VM-20, Requirements for Principle-Based Reserves for Life Products, Historical Mortality Improvement (HMI) and Future Mortality Improvement (FMI) Factors —*Marianne Purushotham (Society of Actuaries—SOA)* |
| 10:30 – 12:00 p.m. | 6. | Hear a Presentation on GOES Model Office Testing —*Simon Gervais (Oliver Wyman)* |
| 12:00 – 1:30 p.m. | | Lunch |
| 1:30 – 1:45 p.m. | 7. | Consider Exposure of APF 2024-11 Life Principle-Based Reserves (PBR) Exemption—*Rachel Hemphill (TX)* |
| 1:45 – 2:15 p.m. | 8. | Hear Presentation on the Reflection of Negative Interest Maintenance Reserves (IMRs) in PBR and Asset Adequacy Testing (AAT) —*Rachel Hemphill (TX)* |

| | |
|---|---|
| 2:15 – 2:45 p.m. | 9. Hear an Update on Reviews of *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53) Filings—*Fred Andersen (MN)* |
| 2:45 – 3:00 p.m. | Break |
| 3:00 – 4:30 p.m. | 10. Consider Exposure of the AAT for Reinsurance Actuarial Guideline—*Fred Andersen (MN)* |

**Monday, August 12, 2024**

| | |
|---|---|
| 8:00 – 8:20 a.m. | 11. Hear an Update on SOA Research and Education—*R. Dale Hall (SOA) and Ann Weber (SOA)* |
| 8:20 – 8:35 a.m. | 12. Hear an Update from the American Academy of Actuaries (Academy) Council on Professionalism and Education—*Maryellen Coggins (Academy, Committee on Qualifications), Laura Hanson (Actuarial Standards Board—ASB), and Shawna Ackerman (Actuarial Board for Counseling and Discipline—ABCD)* |
| 8:35 – 8:50 a.m. | 13. Hear an Update from the Academy Life Practice Council —*Amanda Barry-Moilanen (Academy)* |
| 8:50 – 9:05 a.m. | 14. Hear an Update on Academy Life Knowledge Statements —*Lisa Slotznick (Academy), Darrell Knapp (Academy), and Rhonda Ahrens (Academy)* |
| 9:05 – 9:20 a.m. | 15. Hear an Update from the Interstate Insurance Product Regulation Commission (Compact)—*Karen Schutter* |
| 9:20 – 9:35 a.m. | 16. Consider Exposure of the Generally Recognized Expense Tables (GRETs)—*Tony Phipps (SOA)* |
| 9:35 – 10:00 a.m. | 17. Discuss Any Other Matters Brought Before the Task Force |
| 10:00 a.m. | Adjournment |

Agenda Item 1

Consider Adoption of its Minutes

and Written Subgroup Reports

Draft: 8/5/24

Life Actuarial (A) Task Force
Virtual Meeting
July 25, 2024

The Life Actuarial (A) Task Force met July 25, 2024. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice Chair, represented by Craig Chupp (VA); Mark Fowler represented by Sanjeev Chaudhuri (AL); Lori K. Wing-Heier represented by Sharon Comstock (AK); Ricardo Lara represented by Ahmad Kamil (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak and Kevin Clark (IA); Vicki Schmidt represented by Nicole Boyd (KS); Ann Gillespie represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Robert L. Carey represented by Marti Hooper (ME); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Chlora Lindley-Myers represented by William Leung and John Rehagen (MO); Eric Dunning represented by Margaret Garrison (NE); D.J. Bettencourt represented by Jennifer Li (NH); Justin Zimmerman represented by Seong-min Eom (NJ); Adrienne A. Harris represented by Bill Carmello (NY); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT).

1. <u>Heard about Regulator-to Regulator Discussion</u>

Hemphill reported that the Task Force met July 11 in regulator-to-regulator session pursuant to paragraph 3 (specific companies, entities, or individuals) of the *NAIC Policy Statement on Open Meetings*, to review the illustrations of annuity products. No action was taken.

2. <u>Discussed Comments Received on AAT for Reinsurance Concepts and Attribution Analysis</u>

Andersen provided background for the asset adequacy testing (AAT) for reinsurance proposal, noting that there is a concern with reinsurance transactions involving US policyholders that result in less transparency to state insurance regulators. Andersen said that the Task Force would be reviewing comments received on a June 20 exposure of 1) concepts for AAT for reinsurance presentation and 2) draft attribution analysis template. Jason Kehrberg (American Academy of Actuaries—Academy) discussed the Academy's comment letter (Attachment A) noting that the appointed actuary should be able to apply judgement in performing AAT while recognizing the need for state insurance regulators to provide additional guidance for certain reinsurance situations outlined in the proposal.

Brian Bayerle (American Council of Life Insurers—ACLI) summarized the ACLI's comment letter (Attachment B) stating the importance of finding the right scope to focus in on the riskiest treaties and ensuring that reinsurance remains available as a risk mitigation tool. Eom asked if the ACLI had a proposal for how to determine the riskiness of a given reinsurance contract. Bayerle acknowledged the importance of this determination and pointed to the principles outlined in appendix A of their comment letter as a starting point. Mark Tenney (Mathematical Finance Corporation) then discussed his comment letter (Attachment C) noting challenges with reinsurance collectability relating to some offshore jurisdictions and the potential of certain offshore reinsurance transactions to go against the spirit of the federal Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) financial reforms. Carmello stated that Dodd-Frank actually took away power from state insurance regulators to manage extraterritorial reinsurance transactions.

Peter Gould (Retired Annuity Consumer) spoke to his comment letter (Attachment D) stressing the need to protect consumers from the potential failure of a reinsurer. Dana Wiele (Reinsurance Group of America—RGA) spoke on behalf of the Reinsurance Coalition's comment letter (Attachment E) and noted concern with the proposal's potential impact on the reinsurance market and conflict with covered agreements. Wiele also asked for different groups at the NAIC to coordinate on the potential solution. Tsang asked if Wiele had any statistics on the failures of both domestic and foreign reinsurers, to which Wiele replied that he would look to follow up with. Rehagen also stated that NAIC staff could follow up with a review of this information as well.

Clark asked if the Reinsurance Coalition had any alternative proposals to address state insurance regulators' concerns. Wiele noted that the Reinsurance Coalition was researching alternatives, but pointed to potential analyses that could be done by the ceding company around collectability. Regarding coordination across the NAIC, Clark noted that the Reinsurance (E) Task Force was working closely with the Life Insurance (A) Task Force on this issue and asked if there was any other area for collaboration that the Reinsurance Coalition had in mind. Wiele stated his request for coordination across the NAIC is related to coming up with a balanced approach.

Tricia Matson (Risk Regulatory Consulting—RRC) walked through RRC's comment letter (Attachment F) and stated that her organization had evaluated a number of reinsurance transactions and had concerns that the assets supporting the liabilities would be sufficient under moderately adverse conditions and was therefore supportive of additional requirements. Matson also pointed to the potential need to evaluate capital in addition to reserve adequacy. After Hemphill asked for an elaboration on the need for evaluating capital, Matson stated that certain reinsurance transactions could reduce the assets available to pay claims under more extreme scenarios and should be looked at in addition to the AAT proposal that covered reserving.

Andersen recapped some of the conversation and stated that work was being done to draft an actuarial guideline that would be discussed at the Task Force's session at the Summer National Meeting.

Having no further business, the Life Actuarial (A) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/LATF Calls/07 25/July 25 Minutes.docx

Draft: 8/1/24

Life Actuarial (A) Task Force
Virtual Meeting
June 20, 2024

The Life Actuarial (A) Task Force met June 30, 2024. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice-Chair, represented by Craig Chupp (VA); Mark Fowler represented by Sanjeev Chaudhuri (AL); Lori K. Wing-Heier represented by Sharon Comstock (AK); Ricardo Lara represented by Ahmad Kamil (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak and Kevin Clark (IA); Vicki Schmidt represented by Nicole Boyd (KS); Ann Gillespie represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Timothy N. Schott represented by Marti Hooper (ME); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Chlora Lindley-Myers represented by William Leung (MO); D.J. Bettencourt represented by Jennifer Li (NH); Justin Zimmerman represented by Seong-min Eom (NJ); Adrienne A. Harris represented by Bill Carmello and Amanda Fenwick (NY); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT).

1. Exposed Asset AAT Reinsurance Concepts and Attribution Analysis Template

Andersen walked through a presentation on asset adequacy testing (AAT) for reinsurance. He said that state insurance regulators are focused on cases involving US policyholders where reinsurance may result in a lowering of transparency in terms of the reserves held and the assets supporting reserves. Andersen noted the end goal is to decide whether to develop a rule and to decide on the form of that rule, for example an actuarial guideline.

Andersen introduced the first consideration of the need for reserve adequacy review. Jeff Mulholland (Insurance Capital Market Holdings) suggested that the reserve should not be considered in isolation and that other factors such as assets held in trusts should be considered. Fenwick replied that those amounts are already considered in supporting reserves as part of an asset adequacy analysis, to which Clark agreed. Andersen added that in the past year there was an initiative by state insurance regulators to develop some inquiries and some targeted inquiries into reinsurance collectability.

Andersen then spoke to the second consideration regarding the materiality threshold and preventing work where there is insignificant risk. Clark supported the consideration of materiality and noted its importance when cedants negotiate the appropriate level of data with their reinsurers for reporting. Brian Bayerle (American Council of Life Insurers—ACLI) supported flexibility with the materiality, particularly in the first few years of a new rule as state insurance regulators and companies navigate the new requirements. Discussing the third consideration for risk-based rigor and frequency of analysis, Bayerle suggested that consideration should be given to the other types of reports that may already be available. Bayerle gave the example of a *Valuation Manual* (VM)-30, Actuarial Opinion and Memorandum Requirements report that an assuming company already provides its domestic regulator and makes that available to the ceding companies' domestic regulator.

While discussing the fourth "analysis considerations" topic, Leung asked which treaties would require attribution analysis. Andersen responded that it has not been finalized yet. Bayerle suggested that the appointed actuary provide justification as to why a particular level of effort was appropriate, whether that's just the attribution, some sensitivities or any additional work. Andersen finished the presentation by walking through the rest of the considerations (aggregation, attribution analysis details, use of information already available, and timing).

Andersen made a motion, seconded by Yanacheak, to expose the presentation on AAT for reinsurance (Attachment A) and the attribution analysis concept spreadsheet for a 30-day public comment period ending July 19. The motion passed unanimously.

Having no further business, the Life Actuarial (A) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/LATF Calls/06 20/June 20 Minutes.docx

Draft: 6/25/24

Life Actuarial (A) Task Force
Virtual Meeting
June 13, 2024

The Life Actuarial (A) Task Force met June 13, 2024. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice-Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Ricardo Lara represented by Ahmad Kamil (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Ann Gillespie represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Robert L. Carey represented by Marti Hooper (ME); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Chlora Lindley-Myers represented by William Leung (MO); D.J. Bettencourt represented by Jennifer Li (NH); Justin Zimmerman represented by Seong-min Eom (NJ); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT). Also participating was: Thomas Reedy (CA).

1. Adopted APF 2023-13

Hemphill provided an overview of amendment proposal form (APF) 2023-13 regarding international mortality. Hemphill noted this APF has had multiple exposures, and no comments were received on the latest exposure.

Chupp made a motion, seconded by Tsang, to adopt APF 2023-13 (Attachment A). The motion passed unanimously.

2. Adopted APF 2024-08

Hemphill introduced APF 2024-08, which clarifies the selection of additional assets and the reinvestment approach. Leung noted the phrase “total asset portfolio” was not defined in Valuation Manual (VM)-21, Requirements for Principle-Based Reserves for Variable Annuities. Hemphill clarified the word “total” and replaced “starting” during the exposure discussion to ensure the other requirements were not violated. Jonah von der Embse (American Academy of Actuaries—Academy) added that a key reason for the change was to eliminate double counting for companies that perform asset selection. Hemphill suggested removing the word “total” so that Section 4B(3)(a)(i) would read “pro-rata slice of the asset portfolio.” Leung and von der Embse agreed. Von der Embse suggested using a guidance note in the future to clarify that Section 4B(3)(a)(i) does not necessarily mean total assets or initial assets.

Chupp made a motion, seconded by Tsang, to adopt APF 2024-08 with the edit to strike the word “total” from VM-21 Section 4B(3)(a)(i) (Attachment B). The motion passed unanimously.

3. Adopted APF 2024-07

Weber introduced APF 2024-07, which updates standard projection amount assumptions in VM-21, Section 6. Brian Bayerle (American Council of Life Insurers—ACLI) spoke on ACLI’s comments in support of this APF and provided responses to the exposure questions (Attachment C). Gary Hu (Prudential Financial) discussed Prudential’s feedback on the exposure questions and the APF (Attachment D).

Yanacheak, Eom, and Weber supported a 3% full surrender rate for index-linked variable annuity (VA) contracts with no guaranteed living benefits in the surrender charge period or in policy years one through three for contracts without surrender charges. Slutsker added that regulators want to be prudent in general and, with the absence of data, he supports 3% for now and suggested a survey or data collection to gather information to make informed decisions in the future.

Weber agreed on the necessity of collecting data and expressed concern that the post-surrender period profits might not materialize if the surrender assumption is set too low for index-linked VA contracts without guaranteed living benefits in the first year following the surrender charge period. Slutsker supported 60% unless data can support less than that and considering the policyholder behavior assumptions for non-variable annuities coming out are much higher. Reedy noted that the objective is to identify outliers and agreed that 60% aligns with that. Eom agreed with Slutsker and Reedy and noted the need to collect data.

Weber made a motion, seconded by Slutsker, to adopt APF 2024-07 (Attachment E) with the edit to use 3% so that VM-21, Section 6C(6)(f)(i) reads as “In surrender charge period, or in policy years 1–3 for contracts without surrender charges, 3%,” and use 60% so that VM-21 Section 6.C.6.f(ii) reads as “In the first year after the surrender charge period, 60%”. The motion passed unanimously.

Having no further business, the Life Actuarial (A) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/LATF Calls/06 13/Jun 13 Minutes.docx

Draft: 7/2/24

Life Actuarial (A) Task Force
Virtual Meeting
June 6, 2024

The Life Actuarial (A) Task Force met June 6, 2024. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Peni "Ben" Itula Sapini Teo represented by Elizabeth Perri (AS); Ricardo Lara represented by Ahmad Kamil (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Ann Gillespie represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Robert L. Carey represented by Marti Hooper (ME); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); D.J. Bettencourt represented by Jennifer Li (NH); Justin Zimmerman represented by Seong-min Eom (NJ); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT).

1. Adopted APF 2024-06 (Optional Jumbo Rates for Non-Jumbo Contracts)

Hemphill provided an overview of amendment proposal form (APF) 2024-06 and noted that it was re-exposed with optional language. She also noted that each motion will have to specify which optional language to include.

Hemphill said there were two decision points regarding optional language. The first decision point was the retroactive scope. Paragraphs b and d of Valuation Manual (VM)-22, Statutory Maximum Valuation Interest Rates for Income Annuities, Section 3.C.3 were included to address contracts issued prior to the operative date of APF 2024-06 and to separately address group and individual contracts. The second decision point regarded the election process, with the choice of either notifying the commissioner or receiving prior approval from the commissioner of the state of domicile.

Brian Bayerle (American Council of Life Insurers—ACLI) spoke on the ACLI's comments in support of this APF. Bayerle noted that the ACLI supports the scope of including both individual and group contracts, as well as having the option for a retroactive application. Bayerle also noted that the ACLI is comfortable with the option that would require the domestic regulator's approval.

Slutsker made the motion, seconded by Chupp, to adopt APF 2024-06, including VM-22, Section 3.C.3, paragraphs b and d, as well as the language "must first receive approval from the Commissioner of the state of domicile for such elections" (Attachment A). The motion passed unanimously.

2. Adopted APF 2024-05 (Optional Monthly Rate Determination for Funding Agreement)

Hemphill provided an overview of APF 2024-05 and noted that it was exposed with optional language in brackets in Subsection 3.C, where it is written that the company either "shall notify" or "must receive approval from" the commissioner of the state of domicile. Hemphill noted that each motion must specify which optional language to include.

Bayerle stated that the ACLI supports this APF and prefers the language "shall notify."

Slutsker made a motion, seconded by Chupp, to adopt APF 2024-05 with the first sentence below Subsection 3.C.3 reading as: “The company must receive approval from the Commissioner of the state of domicile before making such an election.” (Attachment B). The motion passed unanimously.

3. Adopted APF 2024-09 (Order of Operations of Interest Maintenance Reserve [IMR])

Hemphill introduced APF 2024-09, which was drafted following the suggestion from the American Academy of Actuaries’ (Academy’s) comment letter noting that it would be more consistent to apply the interest maintenance reserve (IMR) deduction to the scenario reserve before there was flooring at the cash surrender value amount rather than applying the IMR deduction at the end to the aggregate reserve. This APF was exposed with optional language highlighted in yellow (Attachment C) because the Academy raised a concern that there could be some reserve impacts, and a transition period could be warranted. Hemphill noted, however, that the change would impact both the reserve calculation and the C3 calculation, and there would be offsetting changes. The APF was drafted to allow an optional period rather than a phase-in period.

Bayerle stated that the ACLI supports this APF and suggested Jan. 1, 2028, as the mandatory date.

Slutsker made a motion, seconded by Chupp, to adopt APF 2024-09, specifying Jan. 1, 2026, as the beginning of the mandatory period (Attachment C). The motion passed unanimously, with a one-year optional implementation period to handle any transitional impacts.

Having no further business, the Life Actuarial (A) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/LATF Calls/06 06/Jun 6 Minutes.docx

Draft: 8/15/24

Life Actuarial (A) Task Force
Virtual Meeting
May 30, 2024

The Life Actuarial (A) Task Force met on May 30, 2024. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice-Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Ricardo Lara represented by Ahmad Kamil and Thomas Reedy (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak and Kevin Clark (IA); Ann Gillespie represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Robert L. Carey represented by Marti Hooper (ME); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Chlora Lindley-Myers represented by William Leung (MO); Eric Dunning represented by Michael Muldoon (NE); D.J. Bettencourt represented by Jennifer Li (NH); Justin Zimmerman represented by Seong-min Eom and David Wolf (NJ); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT).

1. Re-exposed APF 2024-08

Hemphill introduced amendment proposal form (APF) 2024-08 which clarifies the net asset earned rate (NAER) calculation in *Valuation Manual* (VM)-21, Requirements for Principle-Based Reserves for Variable Annuities. Hemphill noted the key updates that had been made since the prior exposure of APF 2024-08; including; 1) taking language detailing the selection of additional invested assets out of a guidance note to make it clear that it was a requirement; 2) revising references to the additional invested asset portfolios for consistency; 3) adding language that the company should be able to support that additional invested assets are not double counted across principle-based reserves (PBR) calculations; 4) adding language noting that reinvestments in the NAER calculation are subject to the alternative investment strategy described in VM-21 Section 4D(4)(b).; and 5) removing a paragraph that specified using actuarial judgment in the calculation of the NAER when assets are close to zero. Hemphill also suggested making one editorial change for the exposure to change “starting asset portfolio” to “total asset portfolio” in VM-21 Section 4B(3)(a)(i).

Brian Bayerle (American Council of Life Insurers—ACLI) stated that the ACLI is in support of APF 2024-08. Jonah von der Embse (American Academy of Actuaries—Academy) commented that it could make sense to add a requirement for the PBR actuary to certify that the additional assets are consistent with established investment and risk management practices. Reedy suggested that if there is a need for company certification, as the Academy suggested that a separate APF could be drafted, and Hemphill agreed.

Reedy made a motion, seconded by Chupp, to re-expose APF 2024-08 with one editorial change for a seven-day public comment period ending June 5. The motion passed unanimously.

2. Discussed AAT Reinsurance Comments

Andersen said that the Task Force would be hearing comments on the asset adequacy testing (AAT) for reinsurance exposure that occurred at the Spring National Meeting. Bayerle spoke on the ACLI comment letter (Attachment A), noting that it is critical to holistically consider the credit quality of the reinsurance counterparty rather than focusing on one part of the solvency framework. Tricia Matson (Academy) spoke to the Academy comment letter (Attachment B) stating that the group was somewhat divided on the approach to move forward with. Matson said that a subset of the group believed that an alternative disclosure-based approach would not require a prescribed AAT method, but others felt that the AAT approach could work if the scope was focused on high-risk reinsurance treaties. Greg Mitchell (Cayman International Reinsurance Companies Association—CIRCA) walked through CIRCA's comment letter (Attachment C) and added that one commonality for CIRCA's members is that any assumed liability is fully collateralized at no less than the NAIC statutory reserve.

Aaron Sarfatti (Equitable) introduced Equitable's comment letter (Attachment D) noting that regulators have demonstrated adequate concern to justify a guardrail and at the minimum such a guardrail should provide comfort to US regulators and other stakeholders. Peter Gould (Retired Annuity Consumer) discussed his comment letter (Attachment E) and stated that he is dependent on the regulators to make sure that the company's behavior is appropriate and to ensure consumers collect their benefits. Alan Routhenstein (Routhenstein & Co) spoke on his comment letter (Attachment F) stating that he supported the alternative disclosure-based approach described in the Academy's May 17, 2024 comment letter. Matson (Risk Regulatory Consulting—RRC) summarized RRC's comment letter (Attachment G) stating that she is in favor of a solution that will result in sufficient assets backing the policyholder obligations at a level that is adequate under moderately adverse conditions but said that the focus should be on the treaties where a significant reserve reduction is occurring.

Andersen began a series of questions for discussion by asking whether the focus should be on reserve adequacy instead of the counterparty credit risk of the assuming reinsurer, and whether regulator concerns would be resolved if a company is sufficiently well-capitalized even if it did not hold adequate reserves. Carmello stated that even well-capitalized companies need to hold adequate reserves. Clark said the key question was what is the minimum level of analysis required to evaluate counterparty credit risk, particularly when there is very material exposure to a counterparty.

Andersen then asked if the total reserve held by both the US ceding company and foreign assuming company to support a block of business is being reduced through reinsurance, does the US regulator have the right to know the reasons for the reserve decrease. Bayerle responded that the appointed actuary should understand the regulatory framework and reserves associated with the counterparty and that they should document their understanding in the memorandum within the asset adequacy analysis. Carmello said that state insurance regulators and the ceding company appointed actuaries should be interested in the assuming company itself, and that the ceding company should be interested in some kind of trust for the assets that are being ceded. Weber agreed with Carmello, and noted concern that in some cases the appointed actuary may not have adequate information from the assuming company to make an informed assessment of the reserves held in support of the relevant business. Matson pointed out that Actuarial Standard of Practice (ASOP) 11 has a robust list of things that the actuary must consider as they are evaluating counterparty risk when they are doing asset adequacy testing.

Andersen asked if corrective action is appropriate if it is determined that the total reserve is based on inappropriate assumptions? Carmello commented that regulators should be able to take action but worried that it would be challenging given the current reciprocal jurisdiction reinsurer regulations. Clark commented that covered agreements would not apply since regulators have the jurisdiction over the ceding company to take corrective action. Dan Schelp (NAIC) noted that he agreed with Clark from a legal perspective. Andersen then discussed the concept of an attribution analysis regarding the reasons for the total reserves going down after a reinsurance transaction. Andersen said the attribution analysis would reveal potentially very legitimate reasons for reserves to be different in a different jurisdiction than the US. Wolf said that he supported quantitative safeguards and doesn't just want this effort to tweak the disclosures already required for the appointed actuary.

Having no further business, the Life Actuarial (A) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/LATF Calls/05 30/May 30 Minutes.docx

Draft: 8/5/24

Life Actuarial (A) Task Force
Virtual Meeting
May 23, 2024

The Life Actuarial (A) Task Force met May. 23, 2024. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice-Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Ahmad Kamil (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Ann Gillespie represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN);Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Chlora Lindley-Myers represented by William Leung (MO); D.J. Bettencourt represented by Jennifer Li (NH); Justin Zimmerman represented by Seong-min Eom (NJ); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT).

1. <u>Adopted APF 2024-10</u>

Hemphill introduced amendment proposal form (APF) 2024-10 Contract Reserves for Credit Disability Insurance noting that it was adopted by the Health Actuarial (A) Task Force and now the Life Actuarial (A) Task Force must review it as part of its role as gatekeeper of amendments to the *Valuation Manual* (VM).

Chupp made a motion, seconded by Shover, to adopt APF 2024-10 (Attachment A). The motion passed unanimously.

2. <u>Adopted its Spring National Meeting Minutes</u>

Hemphill asked the Task Force to consider adoption of its Spring National Meeting minutes.

Chupp made a motion, seconded by Chou, to adopt the Task Force's March 14-15, 2024 National Meeting minutes (*see NAIC Proceedings – Spring 2024, Life Actuarial (A) Task Force*). The motion passed unanimously.

3. <u>Re-Exposed APF 2024-13</u>

Leung walked through the updates to APF 2024-13 from the most recent exposure. Brian Bayerle (American Council of Life Insurers—ACLI) spoke to the ACLI's comment letter (Attachment B) and highlighted that the key change the ACLI proposed is to use the word "may" in VM-20, Requirements for Principle-Based Reserves for Life Insurance Section 3C(1)(h)(i) so that it reads "The company may use a non-US valuation mortality table based on a non-US industry mortality table developed as described in Section 9.C.3.b.i". Bayerle said that this change would clarify that companies would be able to use, for example, an adjusted US table for foreign business if they felt it was appropriate. Leung replied that this change will only affect companies with significant foreign business. Leung further stated that companies that do not use a non-US mortality table for foreign business can apply the materiality threshold as justification.

Bayerle then asked how companies would know the latest approved tables to use from a particular country under a particular situation. Leung responded that all non-US mortality tables will be subject to approval by the Task Force. Hemphill noted that some aspects of the process would need to be worked out. Bayerle asked if the NAIC could maintain and publish a list of foreign mortality tables approved by the Task Force. Leung responded that; 1) posting tables would take NAIC resources; and 2) it may not be appropriate for the NAIC to publish a third-party table for a foreign country.  Leung suggested using a guidance note describing that we would explore what could be posted, but not make the decision to publish tables at this time. Yanacheak suggested removing the 2030 reference from Section 3.C.1.h (new)(vi) because it is confusing and limiting the companies to the extent there is a new table before 2030.

Leung made a motion, seconded by Chupp, to re-expose APF 2024-13 for a 14-day public comment period ending June 5, with the guidance note on the potential for the NAIC to post a listing of the tables along with the removal of the reference to 2030. The motion passed unanimously.

4. Reported Regulator-to-Regulator Session

Hemphill said that the Task Force met in regulator-to-regulator session on May 22nd, pursuant to paragraph 3 of the NAIC's Policy Statement on Open Meetings to discuss a review that had been performed on company life insurance illustration practices. Hemphill stated that no action was taken.

Having no other business, the meeting adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/LATF Calls/05 23/May 23 Minutes.docx

Draft: 7/21/24

Life Actuarial (A) Task Force
and the Variable Annuities Capital and Reserve (E/A) Subgroup
Virtual Meeting
May 16, 2024

The Life Actuarial (A) Task Force met May 16, 2024, in joint session with the Variable Annuities Capital and Reserve (E/A) Subgroup. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Lori K. Wing-Heier represented by Sharon Comstock (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Ahmad Kamil and Thomas Reedy (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Ann Gillespie represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Timothy Schott represented by Marti Hooper (ME); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Chlora Lindley-Myers represented by William Leung (MO); Eric Dunning represented by Michael Muldoon (NE); D.J. Bettencourt represented by Jennifer Li (NH); Judith L. French represented by Peter Weber (OH); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT). The following Subgroup members participated: Pete Weber, Chair (OH); Thomas Reedy (CA); Philip Barlow (DC); Nicole Boyd (KS); Fred Andersen (MN); William Leung (MO); and Rachel Hemphill (TX).

1. Exposed APF 2024-07

Weber provided background on amendment proposal form (APF) 2024-07, which would update the assumptions used in the *Valuation Manual* (VM)-21, Principle-Based Reserves for Variable Annuities Standard Projection Amount (SPA). Weber stated that APF 2024-07 had been exposed for comment by the Variable Annuities Capital and Reserve (E/A) Subgroup, and that the Task Force could consider exposing APF 2024-07 after reviewing comments to meet the requirements for adoption into the VM. Weber stated that he would walk through the comments received from the American Academy of Actuaries (Academy) (Attachment A), the American Council of Life Insurers (ACLI) (Attachment B), and LIMRA (Attachment C) by subject area.

Discussing the updates to the SPA mortality assumption, Weber noted that both the Academy and ACLI highlighted associated implementation challenges. Brian Bayerle (ACLI) requested delaying the updates to give companies more time. Hemphill stated that companies would have considerable time to implement given that the changes would be in effect for 2025, and Andersen and Reedy agreed. Regarding the shock lapse surrender assumption for index-linked variable annuities (ILVAs), Bayerle noted the potential for the assumption to vary by company and the potential inconsistency that this would create with the other SPA assumptions and the use of the SPA as a benchmark. Hemphill suggested including a question about this in a cover letter for the exposure and adding bracketed language, and Weber agreed.

Continuing on the full surrender assumption for ILVAs, Bayerle said that a lower shock lapse rate assumption may be appropriate given recent experience. Weber suggested, again, to include a question and bracketed language with options for 60%, 50%, and 40% in the exposure, and Hemphill and Reedy agreed. Bayerle also questioned what data source was used to develop the 4% assumption used during the surrender charge period for ILVAs. After discussion, Weber recommended adding a question and additional bracketed language with options for two, three, and four percent to the exposure document.

Weber made a motion, seconded by Andersen, to expose APF 2024-07 with modifications to include bracketed language for the options discussed by the Task Force along with a cover letter with questions for a public comment period of 21 days ending June 5. The motion passed unanimously. Having no further business, the Life Actuarial (A) Task Force and the Variable Annuities Capital and Reserve (E/A) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/LATF Calls/05 16/May 16 Minutes.docx

Draft: 8/4/24

Life Actuarial (A) Task Force
Virtual Meeting
May 9, 2024

The Life Actuarial (A) Task Force met May 9, 2024. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice-Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Ahmad Kamil and Thomas Reedy (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Ann Gillespie represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Timothy Schott represented by Marti Hooper (ME); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Chlora Lindley-Myers represented by William Leung (MO); Eric Dunning represented by Michael Muldoon (NE); D.J. Bettencourt represented by Jennifer Li (NH); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Steve Boston (PA), and Jon Pike represented by Tomasz Serbinowski (UT).

1. Exposed APF 2024-05

Laura Hanson (Pacific Life) re-introduced amendment proposal form (APF) 2024-05 that had last been discussed during the Task Force's Apr. 4 meeting, noting that four revisions had been made after feedback from that meeting. Hanson said the changes include; 1) a revised scope to only apply to contracts with predefined cash flows and no withdrawals permitted prior to contract maturity date; 2) using the monthly Moody's average corporate bond rate as the daily average corporate bond rate was not publicly available; 3) removing references to alternate weighting factors and, instead, using weights from the Standard Valuation Law; and 4) adding multiple options in bracketed language pertaining to the requirements for approval from the domiciliary commissioner. Carmello pointed out that New York, and perhaps other states, regulates funding agreements and other similar contracts in a distinct fashion from life insurance and annuities and asked whether the scope of the *Valuation Manual* (VM) reserve requirements included funding agreements across all issue years. Dan Schelp (NAIC) replied that he would review the issue and provide an answer for Carmello.

Carmello also asked why the Moody's monthly average corporate bond rate was used in APF 2024-05 rather than the rates defined in VM-22, Statutory Maximum Valuation Interest Rates for Income Annuities. Hanson responded that the Moody's rate was used due to the simplicity of the contracts in scope and lack of optionality, and that more review would be needed ahead of moving to a VM-22 approach. Tsang asked what the ratings were of the bonds included in the Moody's average corporate bond rate. Carmello said that investment grade bonds were included and that the rating was between A and AA.

Slutsker made a motion, seconded by Carmello, to expose APF 2024-05 for a 21-day public comment period ending May 29. During the discussion of the motion, Chupp asked whether a cover letter should be added to directly ask for comments on the bracketed language regarding domiciliary commissioner approval. Slutsker and Carmello agreed that Chupp's recommendation for a cover letter should be included in the exposure document. The motion passed unanimously.

2. Re-Exposed APF 2024-06

Hemphill said that the Task Force would consider re-exposure of APF 2024-06, which would allow jumbo valuation rates to be used for non-jumbo contracts with either prior domiciliary commissioner approval or domiciliary commissioner notification, and she walked through updates that had been made to account for comments received from the American Council of Life Insurers (ACLI) (Attachment A) and Carmello (Attachment B).

Yanacheak made a motion, seconded by Leung, to expose APF 2024-05 for a 14-day public comment period ending May 22. The motion passed unanimously.

3. Exposed APF 2024-09

Maambo Mujala (American Academy of Actuaries—Academy) introduced APF 2024-09, which would correct the order of operations for the application of the interest maintenance reserve (IMR) in VM-21, Requirements for Principle-Based Reserves for Variable Annuities. Slutsker noted that it seemed that based on the location of the edits within the existing language that the new requirements would only apply to companies electing to use the direct iteration method (DIM). Hemphill acknowledged Slutsker's comment and suggested instead starting a new paragraph that begins with, "At the option of the company…," to make it clearer that it would not just apply to calculations involving the DIM.

Chupp made a motion, seconded by Tsang, to expose APF 2024-09 with the modification suggested by Hemphill for a 21-day public comment period ending May 29. The motion passed unanimously.

Having no further business, the Life Actuarial (A) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/LATF Calls/05 09/May 9 Minutes.docx

Draft: 7/8/24

Life Actuarial (A) Task Force
Virtual Meeting
May 2, 2024

The Life Actuarial (A) Task Force met May 2, 2024. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Ahmad Kamil and Thomas Reedy (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Ann Gillespie represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Timothy N. Schott represented by Marti Hooper (ME); Chlora Lindley-Myers represented by William Leung (MO); D.J. Bettencourt represented by Jennifer Li (NH); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Glen Mulready represented by Andrew Schallhorn (OK); and Michael Humphreys represented by Steve Boston (PA).

1. Exposed APF 2024-08

Jonah von der Embse (American Academy of Actuaries—Academy) introduced amendment proposal form (APF) 2024-08, which would revise the calculation of the net asset earned rate (NAER) in Valuation Manual (VM)-21, Requirements for Principle-Based Reserves for Variable Annuities. Hemphill noted that she had a conversation with Timothy Ritter (Jackson National Life Insurance), who had performed a detailed review of APF 2024-08 and would speak to some of his comments. First, Hemphill relayed that the new VM-21 Section 4.B.3.b.iv could add confusion given the reference to the depletion of assets in the denominator of the NAER calculation, given that liabilities are excluded from the calculation. Von der Embse acknowledged that the language could add confusion.

Hemphill continued, noting that there seemed to be inconsistency in the terminology used in APF 2024-08, with the inclusion of the phrase “initial additional asset portfolio,” and suggested using the “additional invested asset portfolio” phrasing found in the current edition of VM-21. Von der Embse noted that the “initial” phrasing was used intentionally to distinguish between the initial additional assets and any reinvestment assets but was open to using the existing VM-21 language. Referencing the final sentence of the guidance note, Hemphill said that the language stating that the “assets selected for the initial additional asset portfolio should have the same allocation for all scenarios” should actually refer to an “allocation methodology” to avoid implying that the asset allocation percentages would be the same across every scenario regardless of the starting asset amount. Von der Embse replied that the intention was to have the same allocation percentage across each scenario, to which Hemphill responded that this could be reviewed during the exposure period.

Hemphill then noted that Ritter had one final suggestion that language be added to note that there should not be any double counting of assets across any principle-based reserve (PBR) calculations. Von der Embse said that he would be okay with that edit as long as it did not conflict with using the pro-rata asset allocation approach. Hemphill said that given that the language in the guidance note seems more like a set of requirements, she would prefer the guidance note language be included only in the body of the *Valuation Manual*. Leung stated he had concerns regarding the immediate reinvestment of cash in a high-interest-rate environment, which would likely lead to higher investment returns and a less conservative reserve. Von der Embse acknowledged Leung’s concern but noted that this aspect of APF 2024-08 was crafted based on existing VM-21 language. Connie Tang (Retired) stated that in some cases, a pro-rata approach for additional assets may not be appropriate, giving the example of a dynamic hedging strategy already reflected in the existing calculation. Von der Embse replied that the intention behind the pro-rata approach was to align the NAER and direct iteration approaches.

Reedy made a motion, seconded by Chupp, to expose APF 2024-08, with the edits discussed above, for a 21-day public comment period ending May 22. The motion passed unanimously.

Having no further business, the Life Actuarial (A) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/LATF Calls/05 02/May 2 Minutes.docx

Draft: 6/26/24

Life Actuarial (A) Task Force
Virtual Meeting
April 25, 2024

The Life Actuarial (A) Task Force met April 25, 2024. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Ricardo Lara represented by Ahmad Kamil (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Ann Gillespie represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Chlora Lindley-Myers represented by William Leung (MO); D.J. Bettencourt represented by Jennifer Li (NH); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Glen Mulready represented by Andrew Schallhorn (OK); and Michael Humphreys represented by Steve Boston (PA).

1. Adopted APF 2024-01

Chupp made a motion, seconded by Slutsker, to adopt amendment proposal form (APF) 2024-01. During a discussion of the motion, Colin Masterson (American Council of Life Insurers—ACLI) requested that the phrasing of the rationale be edited to be consistent with the redlined amended *Valuation Manual* language. Alan Routhenstein (Routhenstein & Co.) suggested alternative wording to clarify the intent of APF 2024-01, which is that the qualified actuary need only be qualified in the areas where they are providing a certification but may be qualified in other areas. Hemphill agreed with the intent that Routhenstein stated and supported removing the word “only” and modifying the rationale in the APF to be consistent with the redline as suggested by Masterson, to which Chupp agreed.

Chupp and Slutsker agreed to amend their motion to adopt APF 2024-01 (Attachment A) with the revisions suggested. The motion passed unanimously.

2. Adopted APF 2024-04

Hemphill introduced APF 2024-04, noting that the Task Force had received two feedback items from the ACLI’s comment letter (Attachment B). Regarding the potential for using U.S. data for the lapse assumptions for minimally funded universal life with secondary guarantees (ULSG) policies, Hemphill noted that a current study produced by the Society of Actuaries (SOA) and LIMRA did not have the necessary data to produce distinct lapse rates depending on in-the-moneyness. Therefore, Hemphill said utilizing the Canadian Institute of Actuaries’ (CIA’s) term-to-100 experience still made sense. Hemphill also said that due to the sparse data for joint policies included in the CIA study, she did not recommend requiring the use of that experience for relevant policies.

Chupp made a motion, seconded by Yanacheak, to adopt APF 2024-04 (Attachment C). The motion passed unanimously.

3. Exposed APF 2023-13

Leung walked through the revisions to APF 2023-13, which would facilitate the inclusion in the *Valuation Manual* of non-U.S. mortality tables for use on non-U.S. lives. Chupp asked whether the effective date would be 2025 rather than 2024, to which Leung responded that he would revise the language in APF 2023-13 to be effective for 2025. Chupp also asked whether the references to the Valuation Analysis (E) Working Group in APF 2023-13 were consistent with the Working Group's charges. Pat Allison (NAIC) noted that the role of the Working Group described in APF 2023-13 seemed consistent with the Working Group's current charges. Dan Schelp (NAIC) recommended that the phrasing "The NAIC Valuation Analysis (E) Working Group shall…" be changed to "The NAIC Valuation Analysis (E) Working Group will…" to make it less of a demand on the Working Group, to which Hemphill agreed.

Leung made a motion, seconded by Slutsker, to expose APF 2023-13 for a 21-day public comment period ending May 15, with the edits discussed above. The motion passed unanimously.

Having no further business, the Life Actuarial (A) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/LATF Calls/04 25/Apr 25 Minutes.docx

Draft: 6/18/24

Life Actuarial (A) Task Force
Virtual Meeting
April 4, 2024

The Life Actuarial (A) Task Force met April 4, 2024. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice-Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Ahmad Kamil (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Ann Gillespie represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Chlora Lindley-Myers represented by William Leung (MO); D.J. Bettencourt represented by Jennifer Li (NH); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT).

1. Exposed APF 2024-06

Hemphill noted that she had conducted a review of the permitted practices database to learn if any permitted practices included practices prescribed in the *Valuation Manual*. Hemphill said the review found that these types of permitted practices were rare but had been granted in a small number of cases. Hemphill further stated that for these permitted practices that were actuarially sound and reasonable, it made sense to amend the VM to create a level playing field for all companies.

With background provided, Hemphill introduced amendment proposal form (APF) 2024-06, which would allow the use of jumbo valuation rates for non-jumbo contracts with approval from the domiciliary commissioner. Slutsker said that he would like to change the language to make sure that there was no optionality. Serbinowski agreed and said that instead of requiring domiciliary commissioner approval, companies electing to use jumbo rates for non-jumbo contracts should continue using them moving forward. Carmello added that companies should not be able to opportunistically pick blocks of business and, instead, should make the election for all or none of their relevant business. Brian Bayerle (American Council of Life Insurers—ACLI) stated that it would be beneficial for companies to have some flexibility when electing to make the change for subsets of their business and change their election under certain circumstances. Hemphill suggested including exposure questions along with the APF to receive feedback on the scope of contracts, the ability to change the election after the initial change, and whether the domiciliary commissioner needed to approve.

Tsang made a motion, seconded by Schallhorn, to expose APF 2024-06 with exposure questions for a 30-day public comment period ending May 3. The motion passed unanimously.

2. Discussed APF 2024-05

Laura Hanson (Pacific Life) walked through APF 2024-05, which would allow funding agreement reserves to be determined using a daily Moody's corporate bond rate as the valuation rate with approval of the domiciliary commissioner. Carmello asked why the proposal used the daily Moody's corporate bond rate rather than the VM-22 jumbo rate. Hanson responded that the Moody's corporate bond rate was viewed as appropriate due to the lack of optionality in funding agreement products and less inherent risk due to fixed cash flows. Carmello requested that the lack of optionality and predefined cash flows be spelled out in the APF 2024-05 language.

Slutsker asked if the Moody's corporate bond rate was publicly available. Hanson replied that her group would take the question back to find an answer. Slutsker then asked what the basis is for using a weighting factor of one. Hanson responded that the intention was to have a simple approach for a simple product. Carmello noted that while APF 2024-05 seemed to be written with only simple products in mind, he was concerned that products with more complex and risky features could be included if the scope is not clearly defined. Therefore, Carmello felt that APF 2024-05 was not ready to be exposed. After further discussion, Hanson agreed to make further refinements to APF 2024-05 to clarify the scope and reconsider the weighting factor.

Having no further business, the Life Actuarial (A) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/LATF Calls/04 04/Apr 04 Minutes.docx

Draft: 6/10/24

Life Actuarial (A) Task Force
Virtual Meeting
March 28, 2024

The Life Actuarial (A) Task Force met March 28, 2024. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Ahmad Kamil (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Ann Gilespie represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Chlora Lindley-Myers represented by William Leung (MO); D.J. Bettencourt represented by Jennifer Li (NH); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT).

1. Discussed Adherence to Task Force Exposure Periods

Hemphill noted that the Task Force had utilized discretion in the past to allow for some flexibility for comments on exposures to be turned in beyond the deadline. Hemphill said, however, that recently, some of these extensions to deadlines compromised the ability of the Task Force to work toward its objectives in an expedient time frame. Therefore, Hemphill said that the Task Force would be more strictly enforcing adherence to the exposure deadlines going forward.

Brian Bayerle (American Council of Life Insurers—ACLI) described challenges in meeting tight comment periods and noted that the ACLI may request longer comment periods to account for these challenges.

2. Exposed APF 2024-04

Hemphill introduced amendment proposal form (APF) 2024-04, which would update the lapse assumption used for universal life with secondary guarantee (ULSG) products in Valuation Manual (VM)-20, Requirements for Principle-Based Reserves for Life Insurance, when the cash value is zero or minimal. Hemphill noted that the Canadian Institute of Actuaries (CIA) had updated the assumptions currently referenced in VM-20 for more recent experience and that APF 2024-04 would make changes to reference the latest assumptions.

Chupp made a motion, seconded by Weber, to expose APF 2024-04 for a 21-day public comment period ending April 17. The motion passed unanimously.

3. Discussed Editorial Changes to the 2024 *Valuation Manual*

Chupp walked through a series of reference issues and editorial errors (Attachment A) in the 2024 version of the *Valuation Manual.* After asking Task Force members if there was any objection to making the series of suggested editorial fixes to the 2024 *Valuation Manual* and hearing none, Hemphill directed NAIC staff to make the editorial changes.

4. Discussed Correction to AG 53 Template

Scott O'Neal (NAIC) announced a correction to the Actuarial Guideline LIII: Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves (AG 53) template to fix a locking issue so that the relevant numbers can be populated.  O'Neal said a corrected AG 53 template will be posted to the NAIC website.

Having no further business, the Life Actuarial (A) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/LATF Calls/03 28/Mar 28 Minutes.docx

August 11, 2024

**From:** Fred Andersen, Chair
Indexed Universal Life (IUL) Illustration (A) Subgroup

**To:** Rachel Hemphill, Chair
The Life Actuarial (A) Task Force

**Subject:** The Report of the Indexed Universal Life (IUL) Illustration (A) Subgroup (IUL Illustration SG) to the Life Actuarial (A) Task Force

The IUL Illustration SG has not met since the adoption of group's main work product, revisions to Actuarial Guideline 49A, by the Life Actuarial (A) Task Force on December 11, 2022. The revisions to Actuarial Guideline 49A were subsequently adopted by the NAIC's Executive (EX) Committee and Plenary at the Spring National Meeting on March 25. Regulators are reviewing the impact of the Guideline revisions on the market.

August 11, 2024

**From:** Seong-min Eom, Chair
The Longevity Risk (E/A) Subgroup

**To:** Rachel Hemphill, Chair
The Life Actuarial (A) Task Force

**Subject:** The Report of the Longevity Risk (E/A) Subgroup to the Life Actuarial (A) Task Force

The Longevity Risk (E/A) Subgroup has not met since the 2024 Spring National Meeting. The subgroup will resume the meetings once the currently exposed VM-22 PBR methodology is finalized and adopted to develop and recommend longevity risk factor(s) for the product(s) that were excluded from the application of the current longevity risk factors.

August 11, 2024

**From:** Pete Weber, Chair
The Variable Annuities Capital and Reserve (E/A) Subgroup

**To:** Rachel Hemphill, Chair
The Life Actuarial (A) Task Force

**Subject:** The Report of the Variable Annuities Capital and Reserve (E/A) Subgroup (VACR SG) to the Life Actuarial (A) Task Force

The VACR SG met April 4, 2024 to expose an amendment to VM-21, Principle-Based Reserves for Variable Annuities to update the standard projection amount (SPA) assumptions. After the discussion of the SPA assumption updates at the Subgroup, the Life Actuarial (A) Task Force exposed APF 2024-07 before subsequent adoption by the Task Force and the Life Insurance and Annuities (A) Committee. APF 2024-07 will be considered for final adoption at the Joint Meeting of Executive (EX) Committee and Plenary at the 2024 NAIC Summer National Meeting for inclusion in the 2025 *Valuation Manual*.

Draft: 7/31/24

Variable Annuities Capital and Reserve (E/A) Subgroup
Virtual Meeting
April 4, 2024

The Variable Annuities Capital and Reserve (E/A) Subgroup of the Life Risk-Based Capital (E) Working Group and Life Actuarial (A) Task Force met April 4, 2024. The following Subgroup members participated: Peter Weber, Chair (OH); Thomas Reedy (CA); Nicole Boyd (KS); Fred Andersen and Ben Slutsker (MN); Bill Carmello (NY); and Rachel Hemphill (TX).

1. Exposed APF 2024-07 to Update VM-21 SPA Assumptions

Weber noted that the intention of the discussion would be for the Subgroup to consider exposing amendment proposal form (APF) 2024-07, which would update the expense, full surrender, and mortality assumptions used in the Valuation Manual (VM)-21, Requirements for Principle-Based Reserves for Variable Annuities standard projection amount (SPA). Weber reminded the Subgroup that Joel Sklar (Society of Actuaries—SOA) had presented proposed updates to the mortality assumptions at the Spring National Meeting and turned over the discussion to Sklar to provide a recap. Carmello asked whether Sklar's group had looked into ratchet mortality assumptions in addition to those for rollup-type guarantees. Sklar said they had grouped the ratchet-type products into an "All Other" category to determine the mortality assumption.

Weber then walked through the updates to the expense assumptions, highlighting the increase in the inflation assumption and the starting point from which to apply the inflation to the maintenance expenses. Slutsker said the changes made in APF 2024-07 were consistent with the assumptions used for the draft VM-22, Requirements for Principle-Based Reserves for Non-Variable Annuities, SPA language.

Weber then introduced the potential changes to the full surrender assumptions, noting that it may be difficult to work through the complexities of this assumption while making the deadline for the inclusion of APF 2024-07 into the 2025 *Valuation Manual*. Weber said the full surrender assumptions were based on data that the Life Actuarial (A) Task Force had requested as part of a survey. Brian Bayerle (American Council of Life Insurers—ACLI) requested that an exposure question be added as to whether to quickly adopt APF 2024-07 with just the mortality and expense updates or to work to also include the full surrender assumption updates that could potentially delay adoption.

Carmello made a motion, seconded by Slutsker, to expose APF 2024-07 for a 30-day public comment period ending May 3. The motion passed unanimously.

Having no further business, the Variable Annuities Capital and Reserve (E/A) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/VACR SG Calls/04 04/April 04 Minutes.docx

Agenda Item 2

Update on the NAIC's Mortality Experience Data Collection, Consider Adoption of the Report of the Experience Reporting (A) Subgroup, and Consider Exposure of Amendment Proposal Form (APF) 2024-12


# Update on Life Mortality Experience Data Collection

**Pat Allison, FSA, MAAA**

August 11, 2024



# Agenda

- Recap of Previous Life Mortality Experience Data Collections
  - Observation Years 2018 and 2019
  - Observation Year 2020 and 2021
- 2024 Life Mortality Experience Data Collection
  - Observation Years 2022 and 2023
  - What's New For This Year
- Data Quality Improvements



# Recap of Previous Life Mortality Experience Data Collections
## Observation Years 2018 and 2019

- The NAIC provided aggregated data files to the SOA for observation years 2018 and 2019. These files included data from all participating companies.
- Significant work was done by both the NAIC and the SOA's Individual Life Experience Committee to review the aggregated data. Comparisons were made to data collected for prior observation years, and predictive analytics was used to look for anomalies within the data.
- The files are now in the final stages of the review process with the SOA.
- Future NAIC work may include assisting the Valuation Basic Table (VBT) team and performing model office testing.



# Recap of Previous Life Mortality Experience Data Collections

## Observation Years 2020 and 2021

- NAIC staff is currently working with companies to complete submissions and reviews for the 2020 and 2021 observation years.
  - 2020 data is cleaner than 2021. Significant company staff turnover impacted 2021.
  - Many companies are now passing the NAIC validation checks at an individual record level, but trend analysis done at an aggregated level shows corrections are needed.

    Example: All records coded as standard for 2018-2020 but substandard for 2021
  - For some companies, the only task remaining is to sign off on the reasonableness of the A/E ratios the NAIC calculated based on their data submissions. In some cases, this leads to data resubmissions.
- Once A/E sign-off has been received from all submitting companies for each observation year, the NAIC will prepare aggregated files for the SOA.



# 2024 Life Mortality Experience Data Collection
## Observation Years 2022 and 2023

- A *Valuation Manual* amendment shortened the lag time for the data collection from two years to one year. As a result, this year's data collection will be covering both the 2022 and 2023 observation years.
- The RDC (Regulatory Data Collection) tool is currently open to begin receiving data submissions.
- The due date for initial company data submissions is September 30, 2024. Final (corrected) company data submissions are due February 28, 2025.
- **The NAIC grants extensions.** If additional time is needed to correct data exceptions identified by the RDC system, please let us know.



# 2024 Life Mortality Experience Data Collection

## New This Year – SharePoint Site

- The NAIC is migrating away from the current FTP site and is setting up a SharePoint site.

- The new site will be a more robust platform for sharing individual company communications as well as providing a place to post global notices that apply to all submitting companies. The control totals, reconciliation, and VM-51 Appendices Questionnaires provided by the companies will also be posted to this site.

- Final testing is underway. We anticipate the site will go live by the end of August.

- NAIC staff is preparing a special training video on how to use this new site. The video will be posted to the NAIC website prior to the site going live.



# 2024 Life Mortality Experience Data Collection

## New This Year – Enhancements to Data Trend Spreadsheet

- Last year, NAIC staff began preparing a trend spreadsheet to show the distribution of key data fields for the years that the NAIC has been collecting data.
- This year's spreadsheet will include six years of data (2018 – 2023).
- We are also expanding the spreadsheet to include additional quantitative data such as total & average face amounts.
- NAIC staff reviews these spreadsheets and questions are posed regarding unusual patterns.



# 2024 Life Mortality Experience Data Collection

## Data Trend Spreadsheet Examples

| | RECORD COUNTS BY OBSERVATION YEAR | | | | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | |
| **SUBSTANDARD INDICATOR** | | | | | |
| | 546,000 | 593,000 | 625,000 | 0 | 0 = Policy segment is not substandard |
| | 21,000 | 22,000 | 23,000 | 642,000 | 1 = Policy segment is substandard |
| **UNDERWRITING REQUIREMENTS** | | | | | |
| | 492,000 | 545,000 | 0 | 0 | 01 = Underwritten, but unknown whether fluid was collected |
| | 9,000 | 8,000 | 100,000 | 110,000 | 02 = Underwritten with no fluid collection |
| | 0 | 0 | 465,000 | 469,000 | 03 = Underwritten with fluid collected |
| | 35,000 | 31,000 | 29,000 | 27,000 | 99 = For issues where underwriting requirement unknown or unable to subdivide |



# 2024 Life Mortality Experience Data Collection

## New This Year - Checklists

- Pre-Submission Checklist
  - ➢ The NAIC has prepared a pre-submission checklist to assist companies in making sure their submissions are accurate and complete. Companies can use the checklist when preparing and submitting their data.
  - ➢ Common issues that are addressed in the checklist include: ensuring all fields are coded consistently with prior year's data, checking for duplicate records, and checking that preferred class structure fields were coded correctly.
- Post-Submission Checklist
  - ➢ We have also prepared a post-submission checklist for steps that need to be done once the company receives feedback from the NAIC.
    - Has all feedback from the NAIC been downloaded and reviewed?
    - Have responses to critical exceptions been provided to the NAIC?
    - Is a data resubmission needed?



# Data Quality Improvements

- Some companies are now submitting clean data on their first submission.
- Communication / responses from many companies have improved and have been extremely helpful in analyzing the data and improving data quality.
- Some companies have completed major projects to improve data quality. We expected and are seeing changes for the following fields for 2020/2021 vs. 2018/2019:
  - Underwriting Type (see example from slide 8)
  - Preferred Class Structure fields (e.g. cleanup of inconsistent coding)
- Many companies are now including data on COVID-19 deaths for both 2020 and 2021 (this was optional for 2020).



NATIONAL ASSOCIATION OF
INSURANCE COMMISSIONERS

11

## 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.

   Seong-min Eom, NJ Division of Insurance
   Pat Allison, NAIC

   NAIC Collection of Group Annuity Mortality Experience

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-50
   Sections 2.B.2, 4.B.2, and 4.B.3

   VM-51
   Section 2 title and Section 2.E
   New Section 3: Statistical Plan for Group Annuity Mortality
   New Appendix 5: Group Annuity Mortality Data Elements and Format

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 attachment.

   Note:
   The NAIC relied on the following SOA work products, parts of which were cited and/or reproduced with permission and used to draft this amendment to the *Valuation Manual* for group annuitant mortality experience:
   - Pri-2012 Private Retirement Plans Mortality Tables Report. Copyright 2019, The Society of Actuaries and Society of Actuaries Research Institute, Chicago, Illinois.
   - 2015 – 2018 Group Annuity Mortality Experience Report. Copyright 2022, The Society of Actuaries and Society of Actuaries Research Institute, Chicago, Illinois.

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

   This amendment establishes a Statistical Plan for Group Annuity Mortality and designates the NAIC as the Experience Reporting Agent.

* 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:

| **Dates:** Received | Reviewed by Staff | Distributed | Considered |
|---|---|---|---|
| 8/1/24 | SO | | |
| **Notes:** APF 2024-12 | | | |

W:\National Meetings\2010\...\TF\LHA\

***VM-50: Experience Reporting Requirements***

**Table of Contents**



## Section 1: Overview

A. Purpose of the Experience Reporting Requirements

The purpose of this section is to define the requirements pursuant to Section 13 of Model #820 for the submission and analysis of company data. It includes consideration of the experience reporting process, the roles of the relevant parties, and the intended use of and access to the data, and the process to protect the confidentiality of the data as outlined in Model #820.

B. PBR and the Need for Experience Data

The need for experience data includes but is not limited to:

1. PBR may require development of assumptions and margins based on company experience, industry experience or a blend of the two. The collection of experience data provides a database to establish industry experience tables or factors, such as valuation tables or factors as needed.

2. The development of industry experience tables provides a basis for assumptions when company data is not available or appropriate and provides a comparison basis that allows the state insurance regulator to perform reasonableness checks on the appropriateness of assumptions as documented in the actuarial reports.

3. The collection of experience data may assist state insurance regulators, reviewing actuaries, auditors and other parties with authorized access to the PBR actuarial reports to perform reasonableness checks on the appropriateness of principle-based methods and assumptions, including margins, documented in those reports.

4. The collection of experience data provides an independent check on the accuracy and completeness of company experience studies, thereby encouraging companies to establish a disciplined internal process for producing experience studies. Industry aggregate or sub-industry aggregate experience studies may assist an individual company for use in setting experience-based assumptions. As long as the confidentiality of each company's submitted results is maintained, a company may obtain results of a study on companies' submitted experience for use in formulating experience assumptions.

5. The collection of experience data will provide a basis for establishing and updating the assumptions and margins prescribed by regulators in the *Valuation Manual*.

6. The reliability of assumptions based on company experience is founded on reliable historical data from comparable characteristics of insurance policies including, but not limited to, underwriting standards and insurance policy benefits and provisions. As with

all forms of experience data analysis, larger and more consistent statistical samples have a greater probability of producing reliable analyses of historic experience than smaller or inconsistent samples. To improve statistical credibility, it is necessary that experience data from multiple companies be combined and aggregated.

7. The collection of experience data allows state insurance regulators to identify outliers and monitor changes in company experience factors versus a common benchmark to provide a basis for exploring issues related to those differences.

8. PBR is an emerging practice and will evolve over time. Research studies other than those contemplated at inception may be useful to improvement of the PBR process, including increasing the accuracy or efficiency of models. Because the collection of experience data will facilitate these improvements, research studies of various types should be encouraged.

9. The collection of experience data is not intended as a substitute for a robust review of companies' methodologies or assumptions, including dialogue with companies' actuaries.

**Section 2: Statutory Authority and Experience Reporting Agent**

A. Statutory Authority

1. Model #820 provides the legal authority for the *Valuation Manual* to prescribe experience reporting requirements with respect to companies and lines of business within the scope of the model.

2. The statutes and regulations requiring data submissions generally apply to all companies licensed to sell life insurance, A&H insurance and deposit-type contracts. These companies must submit experience data as prescribed by the *Valuation Manual*.

3. Section 4A(5) of Model #820 defines the data to be collected to be confidential.

B. Experience Reporting Agent

1. For the purposes of implementing the experience reporting required by state laws based on Section 13 of Model #820, an Experience Reporting Agent will be used for the purpose of collecting, pooling and aggregating data submitted by companies as prescribed by lines of business included in VM-51.

2. The NAIC is designated as Experience Reporting Agent for the following Statistical Plans:~~Statistical Plan for Mortality beginning Jan. 1, 2020,~~

a. Life Insurance Mortality, beginning Jan. 1, 2020
b. Group Annuity Mortality, beginning Jan. 1, 2026. ~~and NAIC expertise in collecting and sorting data from multiple sources into a cohesive database in a secure and efficient manner, but t~~

**Commented [PA1]:** It will need to be determined whether a 1/1/26 effective date is feasible. The first data collection would kick off 7/1/26 if the timing aligns with the annual life insurance mortality experience data collection..

~~2.~~3. The designation of the NAIC as Experience Reporting Agent does not preclude state insurance regulators from independently engaging other entities for similar data required under this *Valuation Manual* or other data purposes.

**Section 3: Experience Reporting Requirements**

A. Statistical Plans

1. Consistent with state laws based on Section 13 of Model #820, the Experience Reporting Agent shall collect experience data based on statistical plans defined in the *Valuation Manual*.

2. Statistical plans are detailed instructions that define the type of experience data being collected (e.g., mortality; elective policyholder behavior, such as surrenders, lapses, premium payment patterns, etc.; and company expense data, such as commissions, policy expenses, overhead expenses etc.). The state insurance regulators serving on the Life Actuarial (A) Task Force and Health Actuarial (B) Task Force, or any successor body, will be responsible for prescribing the requirements for any statistical plan by applicable line of business. For each type of experience data being collected, the statistical plan will define the data elements and format of each data element, as well as the frequency of the collection of experience data. The statistical plan will define the process and the due dates for submitting the experience data. The statistical plan will define criteria that will determine which companies must submit the experience data. The statistical plan will also define the scope of business that is to be included in the experience data collection, such as lines of business, product types, types of underwriting, etc. Statistical plans are defined in VM-51 of the *Valuation Manual*. Statistical plans will be added to VM-51 of the *Valuation Manual* when they are ready to be implemented. Additional data elements and formats to be collected will be added as necessary, in subsequent revisions to the *Valuation Manual*.

3. Data must conform to common data definitions. Standard definitions provide for stable and reliable databases and are the basis of meaningful aggregated insurance data. This will be accomplished through a uniform set of suggested minimum experience reporting requirements for all companies.

B. Role and Responsibilities of the Experience Reporting Agent

1. Based on requirements of VM-51, the Experience Reporting Agent may design its data collection procedures to ensure it is able to meet these regulatory requirements. The Experience Reporting Agent will provide sufficient notice to reporting companies of changes, procedures and error tolerances to enable the companies to adequately prepare for the data submission.

2. The Experience Reporting Agent will aggregate the experience of companies using a common set of classifications and definitions to develop industry experience tables.

3. The Experience Reporting Agent will seek to enter into agreements with a group of state insurance departments for the collection of information under statistical plans included in VM-51. The number of states that contract with the Experience Reporting Agent will be based on achieving a target level of industry experience prescribed by VM-51 for each line of business in preparing an industry experience table.

    a. The agreement between the state insurance department(s) and the Experience Reporting Agent will be consistent with any data collection and confidentiality requirements included within Model #820 and the *Valuation Manual*. Those state insurance departments seeking to contract with the Experience Reporting Agent will inform the Experience Reporting Agent of any other state law requirements, including laws related to the procurement of services that will need to be considered as part of the contracting process.

b. Use of the Experience Reporting Agent by the contracting state insurance departments does not preclude those state insurance departments or any other state insurance departments from contracting independently with another Experience Reporting Agent for similar data required under this *Valuation Manual* or other data purposes.

4. The Life Actuarial (A) Task Force or Health Actuarial (B) Task Force will be responsible for the content and maintenance of the experience reporting requirements. The Life Actuarial (A) Task Force or Health Actuarial (B) Task Force or a working group will monitor the data definitions, quality standards, appendices and reports described in the experience reporting requirements to assure that they take advantage of changes in technology and provide for new regulatory and company needs.

5. To ensure that the experience reporting requirements will continue to be useful, the Life Actuarial (A) Task Force or Health Actuarial (B) Task Force will seek to review each statistical plan on a periodic basis at least once every five years. The Life Actuarial (A) Task Force or Health Actuarial (B) Task Force should have regular dialogue, feedback and discussion of this topic. In seeking feedback and engaging in discussions, the Life Actuarial (A) Task Force or Health Actuarial (B) Task Force shall include a broad range of data users, including state insurance regulators, consumer representatives, members of professional actuarial organizations, large and small companies, and insurance trade organizations.

6. The Experience Reporting Agent will obtain and undergo at least annual external audits to validate that controls with respect to data security and related topics are consistent with industry standards and best practices. The Experience Reporting Agent will provide a copy of any report prepared in connection with such an audit, upon a company's request. In the event of a material deficiency identified in the external audit or in the event of an identified security breach affecting the Experience Reporting Data, the Experience Reporting Agent shall notify the NAIC, and the states that have directed the Experience Reporting Agent to collect this information, of the nature and extent of such an issue. In the event of an identified security breach affecting Experience Reporting Data, the Experience Reporting Agent shall also notify any insurer whose data was affected. Upon good cause shown, the Experience Reporting Agent will take reasonable actions to protect the data under its control, including that the data submission process may be suspended until the security issue has been remediated. If data submission is suspended under this section, the Experience Reporting Agent will work with the states that have directed collection to issue appropriate guidance modifying the requirements of VM 51, Section 2.D. The term "good cause" shall mean that there is the chance of irreparable harm upon continuing the transmission of the data to the Experience Reporting Agent. Once the security issue has been remediated, the Experience Reporting Agent shall notify the NAIC and the states that have directed the Experience Reporting Agent to collect this information. The Experience Reporting Agent shall work in conjunction with the NAIC and the states that have directed the Experience Reporting Agent to collect this information to develop a revised data submission schedule for any deferred submissions. The revised schedule shall provide for reasonable timing for companies to provide such data.

C. Role of Other Organizations

The Experience Reporting Agent may ask for other organizations to play a role for one or more of the following items, including the execution of agreements and incorporation of confidentiality requirements where appropriate:



1. Consult with the NAIC (as appropriate) in the design and implementation of the experience retrieval process;

2. Assist with the data validation process for data intended to be forwarded to the SOA or other actuarial professional organizations to develop industry experience tables;

3. Analyze data, including any summarized or aggregated data, produced by the Experience Reporting Agent;

4. Create initial experience tables and any revised tables;

5. Provide feedback in the development and evaluation of requests for proposal for services related to the reporting of experience requirement;

6. Create statutory valuation tables as appropriate and necessary;

7. Determine and produce additional industry experience tables or reports that might be suggested by the data collected;

8. Work with the Life Actuarial (A) Task Force or Health Actuarial (B) Task Force, in accordance with the *Valuation Manual* governance process, in developing new reporting formats and modifying current experience reporting formats;

9. Support a close working relationship among all parties having an interest in the success of the experience reporting requirement.

**Section 4: Data Quality and Ownership**

A. General Requirements

1. The quality, accuracy and consistency of submitted data is key to developing industry experience tables that are statistically credible and represent the underlying emerging experience. Statistical procedures cannot easily detect certain types of errors in reporting of data. For example, if an underwriter fails to evaluate the proper risk classification for an insured, then the "statistical system" has little chance of detecting such an error unless the risk classification is somehow implausible.

2. To ensure data quality, coding a policy, loss, transaction or other body of data as anything other than what it is known as is prohibited. This does not preclude a company from coding a transaction with incomplete detail and reporting such transactions to the Experience Reporting Agent, but there can be nothing that is known to be inaccurate or deceptive in the reporting. An audit of a company's data submitted to the Experience Reporting Agent under a statistical plan in VM-51 can include comparison of submitted data to other company files.

3. When the Experience Reporting Agent determines that the cause of an edit exception could produce systematic errors, the company must correct the error and respond in a timely fashion, with priority given to errors that have the largest likelihood to affect a significant amount of data. When an error is found that has affected data reported to the Experience Reporting Agent, the company shall report the nature of the error and the nature of its likely impact to the Experience Reporting Agent. Retrospective correction of data subject to systematic errors shall be done when the error affects a significant amount of data that is

still being used for regulatory purposes and it is reasonably practical to make the correction through the application of a computer program or a procedure applied to the entire data set without the need to manually examine more than a small number of individual records.

B. Specific Requirements

1. Once the data file is submitted by the company, the Experience Reporting Agent will perform a validity check of the data elements within each data record in the data file for proper syntax and verify that required data elements are populated. The Experience Reporting Agent will notify the company of all syntax errors and any missing data elements that are required. Companies are required to respond to the Experience Reporting Agent by submitting a corrected data file. The Experience Reporting Agent will provide sufficient notice to reporting companies of changes, procedures and error tolerances to enable the companies to adequately prepare for the data submission.

2. Each submission of data filed by a company with the Experience Reporting Agent shall be balanced against a set of control totals provided by the company with the data submission. ~~At a minimum, these control totals shall include applicable record counts, claim counts, amounts insured and claim amounts.~~ Any submission that does not balance to the control totals shall be referred to the company for review and resolution.

   a. Control totals for the Statistical Plan for Life Insurance Mortality shall include applicable record counts, claim counts, amounts insured, and claim amounts.

   ~~a.~~b. Control totals for the Statistical Plan for Group Annuity Mortality shall include applicable record counts, claim counts, and claim amounts.

3. Each company submitting experience data and each company on whose behalf data is being submitted as required in VM-51 will perform a reconciliation between its submitted experience data with its statistical and financial data, and provide an explanation of differences, to the Experience Reporting Agent. For the Statistical Plan for Life Insurance Mortality, ~~T~~the reconciliation must include policy count and insurance amount. For the Statistical Plan for Group Annuity Mortality, the reconciliation must include TBD.

   a. If a third-party administrator (TPA) that is not an insurance company or an insurance company not required to submit its direct data is submitting data on behalf of an insurance company, the reconciliation will consist of separate lines identifying each insurance company for whom this entity is submitting data.

   b. If the TPA is an insurance company that is required to submit its direct data, the reconciliation must include separate lines identifying each additional company whose data is being submitted.

   c. The reconciliation to company statistical and financial data for both the direct writer and the reinsurer or TPA must include lines indicating the amount of business that is being reported by the reinsurer or TPA. The NAIC will use this information to confirm that all in-scope business is reported and that there is no double counting of policies.

4. Validity checks are designed to identify:

   a. Improper syntax or incomplete coding (e.g., a numeric field that is not numeric,

**Commented [PA2]:** The values to be included in the reconciliation are to be determined.

missing elements of a date field);

b. Data elements containing codes that are not contained within the set of possible valid codes;

c. Data elements containing codes that are contained within the set of possible valid codes but are not valid in conjunction with another data element code;

d. Required data elements that are not populated.

5. Where quality would not appear to be significantly compromised, the Experience Reporting Agent may use records with missing or invalid data if such invalid or missing data do not involve a field that is relevant or would affect the credibility of the report. For companies with a body of data for a state, line of business, product type or observation period that fails to meet these standards, the Experience Reporting Agent will use its discretion, with regulatory disclosure of key decisions made, regarding the omission of the entire body of data or only including records with valid data. Completeness of reports is desirable, but not at the risk of including a body of data that appears to have an unreasonably high chance of significant errors.

6. Errors of a consistent nature are referred to as "systematic." Incorrect coding instructions can introduce errors of a consistent nature. Programming errors within the data processing system of insurer company can also produce systematic miscoding as the system converts data to the required formats for experience reporting. Most systematic errors will produce data that, when reviewed using tests designed to reveal various types of systematic errors, will appear unreasonable and likely to be in error. In addition, some individual coding errors may produce erroneous results that show up when exposures and losses are compared in a systematic fashion. Such checking often cannot, however, provide a conclusive indication that data with unusual patterns is incorrect. The Experience Reporting Agent will perform tests and look at trends using previously reported data to determine if systematic errors or unusual patterns are occurring.

7. The Experience Reporting Agent will undertake reasonability checks that include the comparison of aggregate and company experience for underwriting class and type of coverage data elements for the current reporting period to company and aggregate experience from prior periods for the purpose of identifying potential coding or reporting errors. When reporting instructions are changed, newly reported data elements shall be examined to see that they correlate reasonably with data elements reported under the old instructions.

8. At a minimum, reasonability checks by the Experience Reporting Agent will include:

a. An unusually large percentage of company data reported under a single or very limited number of categories;

b. Unusual or unlikely reporting patterns in a company's data;

c. Claim amounts that appear unusually high or low for the corresponding exposures;

d. Reported claims without corresponding policy values and exposures;

e. Unreasonable loss frequencies or amounts in comparison to ranges of expectation that recognize statistical fluctuation;

f. Unusual shifts in the distribution of business from one reporting period to the next.

9. If a company's unusual pattern under Section 4.B.8.a, Section 4.B.8.b or Section 4.B.8.c is verified as accurate (that is, the reason for the apparent anomaly is an unusual mix of business), then it is not necessary that a similar pattern for the same company be reconfirmed year after year.

10. The Experience Reporting Agent will keep track of the results of the validity and reasonability checks and may adjust thresholds in successive reporting years to maintain a reasonable balance between the magnitude of errors being found and the cost to companies.

11. Results that may indicate a likelihood of critical indications, as defined below, will be reported to the company with an explanation of the unusual findings and their possible significance. When the possible or probable errors appear to be of a significant nature, the Experience Reporting Agent will indicate to the company that this is a "critical indication." "Critical indications" are those that, if not corrected or confirmed, would leave a significant degree of doubt whether the affected data should be used in reports to the state insurance regulator and included in industry databases. It is intended that Experience Reporting Agents will have reasonable flexibility to implement this under the direction of the state insurance regulators. Also, under the direction of the state insurance regulators, the Experience Reporting Agent may grade the severity of indications, or it may simply identify certain indications as critical. While companies are expected to undertake a reasonable examination of all indications provided to them, they are not required to respond to every indication except for those labeled by the Experience Reporting Agent as "critical."

12. The Experience Reporting Agent will use its discretion regarding the omission of data from reports owing to the failure of an insurer company to respond adequately to unusual reasonability indications. Completeness of reports is desirable, but not at the risk of including data that appears to have an unreasonably high chance of containing significant errors.

13. Companies shall acknowledge and respond to reasonability queries from the Experience Reporting Agent. This shall include specific responses to all critical indications provided by the Experience Reporting Agent. Other indications shall be studied for apparent errors, as well as for indications of systematic errors. Corrections for critical indications shall be provided to the Experience Reporting Agent or, when a correction is not feasible, the extent and nature of the error shall be reported to the Experience Reporting Agent.

C. Ownership of Data

1. Experience data submitted by companies to the Experience Reporting Agent will be considered the property of the companies submitting such data, but the recognition of such ownership will not affect the ability of state insurance regulators or the NAIC to use such information as authorized by state laws based on Model #820 or the *Valuation Manual*, or, in case of state insurance regulators, for solvency oversight, financial examinations and financial analysis.

2. The Experience Reporting Agent will be responsible for maintaining data, error reports, logs and other intermediate work products, and reports for use in processing, documentation, production and reproduction of reports provided to state insurance regulators in accordance with the *Valuation Manual*. The Experience Reporting Agent will be responsible for demonstrating such reproducibility at the request of state insurance regulators or an auditor designated by state insurance regulators.

**Section 5: Experience Data**

A. Introduction

1. Using the data collected under statistical plans, as defined in the *Valuation Manual*, the Experience Reporting Agent produces aggregate databases as defined by this *Valuation Manual*. The Experience Reporting Agent, and/or other persons assisting the Experience Reporting Agent, will utilize those databases to produce industry experience tables and reports as defined in the *Valuation Manual*. In order to ensure continued relevance of reports, each defined data collection and resulting report structure shall be reviewed for usefulness at least once every five years since initial adoption or prior review.

2. Data compilations are evaluated according to four distinct, and often competing, standards: quality, completeness, timeliness and cost. In general, quality is a primary goal in developing any statistical data report. The priorities of the other three standards vary according to the purpose of the report.

3. The Experience Reporting Agent may modify or enlarge the requirements of the *Valuation Manual*, through recommendation to the Life Actuarial (A) Task Force or Health Actuarial (B) Task Force and in accordance with the *Valuation Manual* governance process for information to accommodate changing needs and environments. However, in most cases, changes to existing data reporting systems will be feasible only to provide information on future transactions. Requirements to submit new information may require that companies change their systems. Also, the Experience Reporting Agent may need several years before it can generate meaningful data meeting the new requirements with matching claims and insured amounts. The exact time frames for implementing new data requirements and producing reports will vary depending on the type of reports.

B. Design of Reports Linked to Purpose

Fundamental to the design of each report is an evaluation of its purpose and use. The Life Actuarial (A) Task Force and Health Actuarial (B) Task Force shall specify model reports responding to general regulatory needs. These model reports will serve the basic informational needs of state insurance regulators. To address a particular issue or problem, a state insurance regulator may have to request to the Life Actuarial (A) Task Force or Health Actuarial (B) Task Force that additional reports be developed.

C. Basic Report Designs

1. The Life Actuarial (A) Task Force or Health Actuarial (A) Task Force will designate basic types of reports to meet differing needs and time frames. Each statistical plan defined in VM-51 of the *Valuation Manual* will provide a detailed description of the reports, the frequency and time frame for the reports. Statistical compilations are anticipated to be the primary reports.

2. Statistical compilations are aggregate reports that generally match appropriate exposure amounts and transaction event amounts to evaluate the recent experience for a line of business. For example, a statistical compilation of mortality experience would match insurance face amounts exposed to death with actual death claims



paid. Here the exposure amount is the total insurance face amount exposed to death, and the transaction event amounts would be the death claims paid. As another example, a statistical compilation of surrender experience would match total cash surrender amounts exposed to surrender with actual surrender amounts paid. Here the exposure amount is the total cash surrender amounts that could be surrendered, and the transaction event amounts would be the total surrender amounts actually paid. Statistical compilations can be performed for the industry or for the state of domicile.

3. In addition to statistical compilations, state insurance regulators can specify additional reports based on elements in the statistical plans in VM-51. State insurance regulators can also use statistical compilations and additional reports to evaluate non-formulaic assumptions.

4. The Life Actuarial (A) Task Force or Health Actuarial (B) Task Force will specify the reports to be provided to the professional actuarial associations to fulfill their roles as specified in Section 3.C of this VM-50. In general, the reports are expected to include statistical compilation at the industry level.

5. State insurance regulators can use the reports to review long-term trends. Aggregate experience results may indicate areas warranting additional investigation.

D. Supplemental Reports

1. For specific lines of business and types of experience data, state insurance regulators may request additional reports from the Experience Reporting Agent. State insurance regulators also may request custom reports, which may contain specific data or experience not regularly produced in other reports.

2. The regulator and the Experience Reporting Agent must negotiate time schedules for producing supplemental reports. The information in these reports is limited by the amount of data actually available and the manner in which it has been reported.

E. Reports to State Insurance Departments

The Experience Reporting Agent will periodically provide the following reports to state insurance departments:

1. A list of companies whose data is included in the compilation.

2. A list of companies whose data was excluded from the compilation because it fell outside of the tolerances set for missing or invalid data, or for any other reason.

**Section 6: Confidentiality of Data**

A. Confidentiality of Experience Data

1. The confidentiality of the experience data, experience materials and related information collected pursuant to the *Valuation Manual* is governed by state laws based on Section 14.A.(5) of Model #820. The following information is considered "confidential information" by state laws based on Section 14A(5) of the Model #820:

Any documents, materials, data and other information submitted by a company under Section 13 of [the Standard Valuation Law] (collectively, "experience data") and any other documents, materials, data and other information, including, but not limited to, all working papers, and copies thereof, created or produced in connection with such experience data, in each case that include any potentially company-identifying or personally identifiable information, that is provided to or obtained by the commissioner (together with any "experience data," the "experience materials") and any other documents, materials, data and other information, including, but not limited to, all working papers, and copies thereof, created, produced or obtained by or disclosed to the commissioner or any other person in connection with such experience materials.

2. Nothing in the experience reporting requirements or elsewhere within the *Valuation Manual* is intended to, or should be construed to, amend or supersede any applicable statutory requirements, or otherwise require any disclosure of confidential data or materials that may violate any applicable federal or state laws, rules, regulations, privileges or court orders applicable to such data or materials.

B. Treatment of Confidential Information

1. Confidential information may be shared only with those individuals and entities specified in state laws based on Section 14B(3) of Model #820. Any agreement between a state insurance department and the Experience Reporting Agent will address the extent to which the Experience Reporting Agent is authorized to share confidential information consistent with state law.

2. The Experience Reporting Agent may be required to use confidential information in order to prepare compilations of aggregated experience data that do not permit identification of individual company experience or personally identifiable information. These reports of aggregated information, including those reports referenced in Section 5 of VM-50, are not considered confidential information, and the Experience Reporting Agent may make publicly available such reports. Reports using aggregate experience data will have sufficient diversification of data contributors to avoid identification of individual companies.

3. Consistent with state laws based on Section 14B(3) of the Model #820 and any agreements between a state insurance department and the Experience Reporting Agent, access to the confidential information will be limited to:

   a. State, federal or international regulatory agencies;

   b. The company with respect to confidential information it has submitted, and any reports prepared by the Experience Reporting Agent based on such confidential information;

   c. The NAIC, and its affiliates and subsidiaries;

   d. Auditor(s) of the Experience Reporting Agent for purposes of the experience reporting function outlined in this VM-50; and

e. Other individuals or entities, including contractors or subcontractors of the Experience Reporting Agent, otherwise assisting the Experience Reporting Agent or state insurance regulators in fulfilling the purposes of VM-50. These other individuals or entities may provide services related to a variety of areas of expertise, such as assisting with performing industry experience studies, developing valuation mortality tables, data editing and data quality review. These other individuals and entities shall be subject to the same standards as the Experience Reporting Agent with respect to the maintenance of confidential information.

***VM-51: Experience Reporting Formats***

**Table of Contents**



**Section 1: Introduction**

A. The experience reporting requirements are defined in Section 3 of VM-50. The experience reporting requirements state that the Experience Reporting Agent will collect experience data based on statistical plans that are defined in VM-51 of the *Valuation Manual*. Statistical plans are to be added to VM-51 of the *Valuation Manual* when they are ready to be implemented.

B. Each statistical plan shall contain the following information:

1. The type of experience data to be collected (e.g., mortality experience; policy behavior experience, such as surrenders, lapses, conversions, premium payment patterns, etc.; and company expense experience, such as commission expense, policy issue and maintenance expense, company overhead expenses etc.);

2. The scope of business to be included in the experience data to be collected (e.g., line(s) of business, such as individual or group, life, annuity or health; product type(s), such as term, whole life, universal life, indexed life, variable life, fixed annuity, indexed annuity, variable annuity, LTC or disability income; and type of underwriting, such as medically underwritten, simplified issue (SI), GI, accelerated, etc.);

3. The criteria for determining which companies or legal entities must submit the experience data to be collected;

4. The process for submitting the experience data to be collected, which will include the frequency of the data collection, the due dates for data collection and how the data is to be submitted to the Experience Reporting Agent;

5. The individual data elements and format for each data element that will be contained in each experience data record, along with detailed instructions defining each data element or how to code each data element. Additional information may be required, such as questionnaires and plan code forms that will assist in defining the individual data elements that may be unique to each company or legal entity submitting such experience data elements;

6. The experience data reports to be produced.

**Section 2: Statistical Plan for Life Insurance 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

1. 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. All values should be prior to any reinsurance ceded except for the situation defined in VM-51 Section 2.B.2. 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, direct response, final expense, preneed, home service, credit life, and corporate-owned life insurance (COLI)/bank-owned life insurance (BOLI)/charity-owned life insurance (CHOLI).
2. In the event a reinsurer or TPA is responsible for administering a block of business, the reinsurer or TPA may submit that block of business on behalf of the direct writer. In this case, the reinsurer or TPA must be identified in Appendix 4 Item 1 - Submitting Company ID, and the direct writer must be identified in Appendix 4 Item 2 - NAIC Company Code of Direct Writer.
   a. As defined in VM-50 Section 4.B.3, the reconciliation to company statistical and financial data for both the direct writing company and all reinsurers and/or TPAs must include lines indicating the amount of business that is being reported by the reinsurers and/or TPAs. The Experience Reporting Agent will compare the reconciliations for all business submitted by the direct writer and any reinsurers and/or TPAs to ensure that all business is included and that there is no double counting of policies.
   b. If an insurance company is required to submit its direct written business and it also has reinsurance assumed business, it should only submit the assumed business if asked to do so by the ceding company since some ceding companies may not have been selected for data submission.
3. The direct writing company is ultimately responsible for all the data submitted for its company.

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.

D. Process for Submitting Experience Data Under This Statistical Plan

Data for this statistical plan for mortality shall be submitted on an annual basis. Each company required to submit this data shall submit the data using the Regulatory Data Collection (RDC) online software submission application developed by the Experience Reporting Agent. For each data file submitted by a company, the Experience Reporting Agent will perform reasonability and completeness checks, as defined in Section 4 of VM-50, on the data. The Experience Reporting Agent will notify the company within 30 days following the data submission of any possible errors that need to be corrected. The Experience Reporting Agent will compile and send a report listing potential errors that need correction to the company.

Data for this statistical plan for mortality will be compiled using a calendar year method. The reporting calendar year is the calendar year that the company submits the experience data. The observation calendar year is the calendar year of the experience data that is reported. The observation calendar year will be one year prior to the reporting calendar year. For example, if the current calendar year is 2024 and that is the reporting calendar year, the company is to report the experience data that was in-force or issued in calendar year 2023, which is the observation calendar year. For the 2024 reporting calendar year, companies who are required to submit data for this statistical plan for mortality will be required to submit two observation calendar years of data, namely observation calendar year 2022 and observation calendar year 2023. For reporting calendar years after 2024, companies who are required to submit data for this statistical plan for mortality will be required to submit one observation calendar year of data.

Given an observation calendar year of 20XX, the calendar year method requires reporting of experience data as follows:

i. Report policies in force during or issued during calendar year 20XX.

ii. Report terminations that were incurred in calendar year 20XX and reported before April 1, 20XX+1. Companies may report terminations reported after April 1, 20XX+1 if they choose to do so. However, exclude rescinded policies (e.g., 10-day free look exercises) from the data submission.

For any reporting calendar year, the data call will occur during the second quarter, and data is to be submitted according to the requirements of the *Valuation Manual* in effect during that calendar year. Data submissions must be made by Sept. 30 of the reporting calendar year. Corrections of data submissions must be completed by Feb. 28 of the year following the reporting calendar year. The NAIC may extend either of these deadlines if it is deemed necessary.

E. Experience Data Elements and Formats Required by This Statistical Plan

Companies subject to reporting pursuant to the criteria stated in Section 2.C are required to complete the data forms in Appendix 1, Appendix 2 and Appendix 3 as appropriate, and also complete the Experience Data Elements and Formats as defined in Appendix 4.

The data should include policies issued as standard, substandard (optional) or sold within a preferred class structure. Preferred class structure means that, depending on the underwriting results, a policy could be issued in classes ranging from a best preferred class to a residual standard class. Policies issued as part of a preferred class structure are not to be classified as substandard.

Policies issued as conversions from term or group contracts should be included. For these converted policies, the issue date should be the issue date of the converted policy, and the underwriting field will identify them as issues resulting from conversion.

Generally, each policy number represents a policy issued as a result of ordinary underwriting. If a single life policy, the base policy on a single life has the policy number and a segment number of 1. On a joint life policy, each life has separate records with the same policy number. The base policy on the first life has a segment number of 1, and the base policy on the second life has a segment number of 2. Policies that cover more than two lives are not to be submitted.

Term/paid up riders or additional amounts of insurance purchased through dividend options on a policy issued as a result of ordinary underwriting are to be submitted. Each rider is on a separate record with the same policy number as the base policy and has a unique segment number. The details on the rider record may differ from the corresponding details on the base policy record. If underwriting in addition to the base policy underwriting is done, the coverage is given its own policy number.

Terminations (both death and non-death) are to be submitted. Terminations are to include those that occurred in the observation year and were reported by ~~June 30~~April 1 of the year after the observation year.

Plans of insurance should be carefully matched with the three-digit codes in item 19, Plan. These plans of insurance are important because they will be used not only for mortality experience data collection, but also for policyholder behavior experience data collection. It is expected that most policies will be matched to three-digit codes that specify a particular policy type rather than select a code that indicates a general plan type.

Each company is to submit data for in-force and terminated life insurance policies that are within the scope defined in Section 2.B except:

i. For policies issued before Jan. 1, 1990, companies may certify that submitting data presents a hardship due to fields not readily available in their systems/databases or legacy computer systems that continue to be used for older issued policies and differ from computer systems for newer issued policies.

ii. For policies issued on or after Jan. 1, 1990, companies must:

   a) Document the percentage that the face amount of policies excluded are relative to the face amount of submitted policies issued on or after Jan. 1, 1990; and

   b) Certify that this requirement presents a hardship due to fields not readily available in their systems/databases or legacy computer systems that continue to be used for older issued policies and differ from computer systems for newer issued policies.

F. Experience Data Reports Required by This Statistical Plan

1. Using the data collected under this statistical plan, the Experience Reporting Agent will produce an experience data report that aggregates the experience data of all companies whose data have passed all of the validity and reasonableness checks outlined in Section 4 of VM-50 and has been determined by the Experience Reporting Agent to be acceptable to be used in the development of industry mortality experience.

2. The Experience Reporting Agent will provide to the SOA or other actuarial professional organizations an experience data report of aggregated experience that does not disclose a company's identity, which will be used to develop industry mortality experience and valuation mortality tables.

3. As long as a company is licensed in a state, that state insurance regulator will be given access to a company's experience data that is stored on a confidential database at the Experience Reporting Agent. Access by the state insurance regulator will be controlled by security credentials issued to the state insurance regulator by the Experience Reporting Agent.

## Section 3: Statistical Plan for Group Annuity 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

1. The data for this statistical plan is annuity experience under group pension contracts, both fixed and variable. This includes ongoing pension plans, terminated pension plans (pension closeouts), partially guaranteed arrangements (such as certain Immediate Participation Guarantee contracts), and non-guaranteed arrangements. Such business is to include direct written business issued by a Company in the U.S. for lives in any country as well as reinsurance written by a Company in the U.S. for business outside the U.S. All values should be prior to any reinsurance ceded except for the situation defined in VM-51 Section 3.B.2. Assumption reinsurance of a 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.
2. In the event a reinsurer or TPA is responsible for administering a block of business, the reinsurer or TPA may submit that block of business on behalf of the direct writer. In this case, the reinsurer or TPA must be identified in Appendix 5 Item 1 - Submitting Company ID, and the direct writer must be identified in Appendix 5 Item 2 - NAIC Company Code of Direct Writer.
   a. As defined in VM-50 Section 4.B.3, the reconciliation to company statistical and financial data for both the direct writing company and all reinsurers and/or TPAs must include lines indicating the amount of business that is being reported by the reinsurers and/or TPAs. The Experience Reporting Agent will compare the reconciliations for all business submitted by the direct writer and any reinsurers and/or TPAs to ensure that all business is included and that there is no double counting of records.

**Commented [PA3]:** The ACLI letter had these comments:
- Some states issue business solely under a group contract; are these certificates intended to be in scope?
- Will group VAs be included, or are only fixed annuities in scope?
- Will there be sub-categories to distinguish between other types of business?

The tables developed based on the Pri-2012 study included only private-sector data and it appears that the 2015-2018 Group Annuity Mortality study did also.

b. If an insurance company is required to submit its direct written business and it also has reinsurance assumed business, it should only submit the assumed business if asked to do so by the ceding company since some ceding companies may not have been selected for data submission.

3. The direct writing company is ultimately responsible for all the data submitted for its company.

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

Companies required to submit experience data will be selected by the Life Actuarial (A) Task Force, based on achieving a target level of approximately 85% of industry mortality experience for group pension contracts. Data for plans having less than X lives shall be excluded.

Exemptions may be granted by the Experience Reporting Agent where appropriate, following consultation with the domestic insurance regulator.

D. Process for Submitting Experience Data Under This Statistical Plan

Data for this statistical plan shall be submitted on an annual basis. Each company required to submit this data shall submit the data using the Regulatory Data Collection (RDC) online software submission application developed by the Experience Reporting Agent. For each data file submitted by a company, the Experience Reporting Agent will perform reasonability and completeness checks on the data, as defined in Section 4 of VM-50. The Experience Reporting Agent will notify the company within 30 days following the data submission of any possible errors that need to be corrected. The Experience Reporting Agent will compile and send a report listing potential errors that need correction to the company.

Data for this statistical plan for mortality will be compiled using a calendar year method. The reporting calendar year is the calendar year that the company submits the experience data. The observation calendar year is the calendar year of the experience data that is reported. The observation calendar year will be one year prior to the reporting calendar year. For example, if the current calendar year is 2026 and that is the reporting calendar year, the company is to report the experience data that was in-force or issued in calendar year 2025, which is the observation calendar year.

Given an observation calendar year of 20XX, the calendar year method requires reporting of experience data as follows:

i. Report records in force during or issued during calendar year 20XX.

ii. Report terminations that were incurred in calendar year 20XX and reported before April 1, 20XX+1. Companies may report terminations reported after April 1, 20XX+1 if they choose to do so.

For any reporting calendar year, the data call will occur during the second quarter, and data is to be submitted according to the requirements of the *Valuation Manual* in effect during that calendar year. Data submissions must be made by Sept. 30 of the reporting calendar year. Corrections of data submissions must be completed by Feb. 28 of the year following the reporting calendar year. The NAIC may extend either of these deadlines if it is deemed necessary.

**Commented [PA4]:** This addresses the following ACLI comment:

- For business subject to third party administration and reinsurance, it would be helpful to clarify which entity is responsible for the data submission

**Commented [PA5]:** Is 85% the desired threshold?

For the Life data collection, the VM-51 selection criteria (based on premiums, claims, and groups) were complicated and caused confusion among companies. Also, it wasn't clear that NAIC staff would use the selection criteria to select the companies needed to achieve 85%. For PRT business, a relatively small number of companies will achieve 85%, so does LATF want to select them directly?

The ACLI letter had this comment:

- Minimum exposure thresholds should also be established to avoid significant effort for immaterial blocks of business and these thresholds may have to be defined by administrator, depending on the response to the first point (which was, who will be responsible for the data submission?).

NAIC response:

- Agreed that perhaps small blocks should be excluded. The Life selection criteria exempted tiny companies (<10 million premium) at the option of the group. They have all since dropped out.
- Since the direct writing company is responsible for the data submission (although TPAs may submit the data), participation thresholds should be set based on the direct writer rather than the TPA.

**Commented [PA6]:** Should small plans be excluded? This section excludes plans with less than X lives, where X is to be determined.

Many of the plans submitted for the SOA Pri-2012 study were small. The report indicates that 242 of the 402 plans each contributed fewer than 2,000 life-years of exposure over the five years of the study period.

E. Experience Data Elements and Formats Required by This Statistical Plan

Companies subject to reporting pursuant to Section 3.C are required to complete the Experience Data Elements and Formats as defined in Appendix 5.

F. Experience Data Reports Required by This Statistical Plan

1. Using the data collected under this statistical plan, the Experience Reporting Agent will produce an experience data report that aggregates the experience data of all companies whose data have passed all the validity and reasonableness checks outlined in Section 4 of VM-50 and has been determined by the Experience Reporting Agent to be acceptable to be used in the development of industry mortality experience.

2. The Experience Reporting Agent will provide to the SOA or other actuarial professional organizations an experience data report of aggregated experience that does not disclose a company's identity, which will be used to develop industry mortality experience and valuation mortality tables.

3. As long as a company is licensed in a state, that state insurance regulator will be given access to a company's experience data that is stored on a confidential database at the Experience Reporting Agent. Access by the state insurance regulator will be controlled by security credentials issued to the state insurance regulator by the Experience Reporting Agent.

## Appendix 5: Group Annuity Mortality Data Elements and Format

The table below provides descriptions of the required data fields. Further details and examples are provided in a data dictionary located on the NAIC's website.

It is expected that companies may not have all the requested data elements, so certain data elements may be left blank or approximated, as noted in the Description column. If key fields necessary to perform an experience study are left blank (e.g. date of termination, date of death) or are inconsistent, the NAIC may make approximations as described in the data dictionary.

**Commented [PA7]:** Approximations were used for the Pri-2012 study. This differs from the approach the NAIC uses for life insurance data (we ask companies to correct records that are blank or inconsistent, and if not corrected, they may be rejected).

| ITEM | MAXIMUM LENGTH | DATA ELEMENT | DESCRIPTION |
|---|---|---|---|
| 1 | 9 | Submitting Company ID | ID number representing the company submitting this file.<br>If the company has an NAIC Company Code, then that code must be used.<br>If the company does not have an NAIC Company Code, the company's Federal Employer Identification Number (FEIN) must be used.<br>If the direct writer is the company submitting the data, Items 1 and 2 must contain the same value. |
| 2 | 5 | NAIC Company Code of the Direct Writer of Business | The NAIC Company Code of the company that wrote the business being reported.<br>In the case of assumption reinsurance where the assuming company is legally responsible for all benefits and claims paid, the assuming company is considered to be the direct writer.<br>If the direct writer is the company submitting the data file, Items 1 and 2 must contain the same value. |
| 3 | 4 | Observation Year | Enter Calendar Year of Observation |
| 4 | 5 | Plan ID | Enter a unique number identifying the Plan. |
| 5 | 9 | Employer ID | Enter the employer's Federal Employer Identification Number (FEIN). |
| 6 | 5 | NAICS Code | Enter the employer's North American Industry Classification System (NAICS) Code. This indicates the employer's industry group and appears on Form 5500.<br><br>Leave blank if the employer does not have a NAICS code, or if it is unknown. |
| 7 | 5 | SIC Code | Enter the employer's Standard Industrial Classification (SIC) Code. This indicates the employer's type of business and appears in its SEC filings.<br><br>Leave blank if the employer does not have a SIC code, or if it is unknown. |
| 8 | 7 | Size of Employer Group | Enter total number of covered employees. |

**Commented [AP8]:** The NAICS code (from Form 5500) was used for the Pri-2012 study. The SIC code is included in this APF as well. Both are requested since employers may have one but not the other (e.g. are employers required to file Form 5500 after they purchase a group annuity contract?). The intent is to use this information to understand the collar type.

**Commented [PA9]:** Is this the number of records submitted, which in the case of a lift-out would only be part of the employer's covered employees? If so, this field is not needed. VM-50 requires control totals which will give us this information.

| ITEM | MAXIMUM LENGTH | DATA ELEMENT | DESCRIPTION |
|---|---|---|---|
| 9 | 1 | Pension Risk Transfer (PRT) Type | 1=Buy-out annuity, where the insurer makes monthly pension payments directly to the covered plan members<br>2=Buy-in annuity, where the insurer makes a monthly bulk pension payment to the pension fund which then pays covered plan members<br>3=Immediate Participation Guarantee<br>4=Other |
| 10 | 1 | Annuity Type | 1=Fixed Annuity<br>2=Variable Annuity |
| 11 | 1 | Structure | 1=Separate Account, where assets are legally insulated from General Account claims<br>3=General Account |
| 12 | 1 | Guarantee Status | 1=Guaranteed<br>2=Non-Guaranteed |
| 13 | 1 | Availability of Full and/or Partial Lump Sums | 1=No lump sums are available<br>2=Full and partial lump sums are available<br>3=Only full lump sums are available<br>4=Only partial lump sums are available<br>5=Full lump sums are available; Unknown whether partial lump sums are available<br>6=Unknown whether full lump sums are available; partial lump sums are available<br>7=Unknown whether full or partial lump sums are available |
| 14 | | Cost of Living Increases | 1=The PRT Type does not include a cost of living or inflation increase<br>2=The PRT Type includes a cost of living or inflation increase |
| 15 | 2 | Status Code | 01 = Active Employee<br>A nondisabled plan participant who is actively employed and not yet receiving pension benefits (including those in plans that no longer have ongoing benefit accruals).<br><br>02 = Terminated Employee<br>A participant who is not an Active Employee, and is not receiving pension benefits, regardless of vesting status.<br><br>03 = Disabled, in Waiting Period<br><br>04 = Disabled and Retired<br>A retired participant receiving benefits who was disabled under the plan's terms at the time of their retirement. Note that under this definition, it is not possible to transition from Disabled and Retired to Retired status or vice versa. Once a participant has a |

**Commented [AP10]:** What is "variable annuity" intended to capture? Are these group pension risk transfer contracts written as immediate variable annuities, where the pension amount would vary based on the performance of a fund?

**Commented [AP11]:** What does "Guaranteed" refer to?

**Commented [PA12]:** Should data on cost of living increases be collected? It would identify records where the benefit amount may increase year-over-year.

**Commented [PA13]:** Should data be requested to capture whether an active employee terminated vested or nonvested? If they terminate nonvested, they will no longer be included in future observation years. If they terminate vested, they should be included in future observation years since they are entitled to receive pension benefits (when a lump sum is paid or they reach an age at which they can elect to receive a monthly pension).

The Pri-2012 study noted that:

Terminated participants (i.e., participants neither actively employed nor receiving pension benefits), regardless of vesting status, were not included in the study. This is because mortality experience for terminated vested participants is often not tracked with precision. The exposure for an Employee that terminated during the study period was included up to the date of termination.

| ITEM | MAXIMUM LENGTH | DATA ELEMENT | DESCRIPTION |
|---|---|---|---|
| | | | status of Disabled Retiree, this status must be maintained for all future observation years.<br><br>05=Disabled and Not Retired<br><br>06=Recovered from Disability and Retired<br><br>07=Recovered from Disability and Not Retired<br><br>08=Retired<br>A former Active Employee in benefit receipt who was not reported as disabled at the date of retirement.<br><br>09=Retirement Stopped<br><br>10=Lump Sum Paid<br><br>11=Contingent Survivor<br>A surviving beneficiary (of a former participant) who is older than age 17 and in benefit receipt.<br><br>12=Contingent Survivor Deferred<br>A surviving beneficiary (of a former participant) who is older than age 17 and not yet in benefit receipt.<br><br>13=Contingent Survivor Stopped Payment<br><br>14=Deceased Participant<br><br>15=Deceased Contingent Survivor |
| **16** | 20 | Participant ID | Enter a unique identifying number for the participant. This must be carried through consistently for all observation years, including annual updates of the participant's status code and other data. |
| **17** | 8 | Participant's Date of Birth | Enter the numeric date in YYYYMMDD format. |
| **18** | 1 | Participant's Gender | 1 = Male<br>2 = Female |
| **19** | 8 | Original Date of Hire | Enter the numeric date in YYYYMMDD format. |
| **20** | 8 | Most Recent Date of Hire | Enter the numeric date in YYYYMMDD format. |

**Commented [AP14]:** Can plan participants receive monthly pension benefits if they are disabled and not retired?

**Commented [AP15]:** Is status 06 needed? The Pri-2012 study didn't allow the status to change from disabled to recovered for retirees.

**Commented [AP16]:** This is the Pri-2012 definition. Should this say "A former Active Employee or Terminated Vested Employee in benefit receipt…"?

**Commented [PA17]:** When would this status occur, and what status would they move into?

**Commented [PA18]:** When would this status occur, and what status would they move into?

**Commented [PA19]:** Why are two dates of hire needed?

How will these dates be used?

| ITEM | MAXIMUM LENGTH | DATA ELEMENT | DESCRIPTION |
|---|---|---|---|
| 21 | 8 | Date of Issuance | Enter the numeric date in YYYYMMDD format. This is the date the participant became eligible for the pension plan and became a plan member. |
| 22 | 1 | Participant's Collar Type | 1 = White Collar<br>2 = Blue Collar<br>3 = Unknown Collar Type<br><br>Participants should be coded as White Collar if they were **both** salaried and nonunion employees.<br><br>Participants should be coded as Blue Collar if they were **either** hourly or union employees.<br><br>Note:<br>Collar type should be submitted for individual participants where reliable.<br><br>If the Collar Type is not known at an individual participant level, all plan's participants may be coded as White Collar or Blue Collar if at least 70% of the plan's participants meet the applicable criteria. If this is not the case, the collar type should be coded as Unknown. |
| 23 | 9 | Participant's Annual Salary | For Status Code = 1 (Active Employee), enter the participant's annual salary received during the observation year. For all other Status Codes, leave this field blank.<br><br>For salaried employees, the participant's annual salary is defined as the base salary plus any bonuses and other awards (e.g. stock awards).<br><br>For hourly employees, the participant's annual salary is defined as total hourly wages including any overtime pay.<br><br>Note:<br>If this field is left blank or is invalid, an assumption may be made by the NAIC (as described in the data dictionary) to approximate the participant's annual salary. |
| 24 | 7 | Participant's Monthly Accrued Benefit | Enter the participant's monthly accrued benefit if Status = 01 (Active Employee) or 02 (Terminated Employee). For all other Statuses, leave blank.<br>Note:<br>If this field is left blank or is invalid, an assumption may be made by the NAIC (as described in the data |

**Commented [PA20]:** Why do we need the date the participant became a plan member? How will this date be used?

**Commented [PA21]:** These are the definitions of White Collar and Blue Collar that were used in the Pri-2012 study.

**Commented [PA22]:** How should annual salary be defined? The Pri-2012 study noted:

RPEC attempted to collect information on the types of compensation included in salary by plan. However, the definitions received were very diverse and did not lend themselves to quantifiable adjustments that could be used to ensure a consistent salary definition throughout the study. RPEC was, therefore, unable to reflect these varying definitions of salary in its analysis.

**Commented [AP23]:** The Pri-2012 study included the following approximation methodology to be used if this field was left blank or was invalid:

If a given participant had a valid amount provided for a different observation year, that amount will be assumed for the year(s) in which the provided value was invalid or missing. Otherwise, the amount will be assumed to be the plan-wide average for the applicable gender and collar type. If these values were not provided for any participants for a given plan, the study-wide average for the applicable collar type, status and gender will be assumed.

| ITEM | MAXIMUM LENGTH | DATA ELEMENT | DESCRIPTION |
|---|---|---|---|
| | | | dictionary) to approximate the participant's monthly accrued benefit. |
| 25 | 8 | Date of Termination | Enter the numeric date in YYYYMMDD format if Status Code = 02 (Terminated Employee). Leave this field blank for all other Status Codes.<br><br>This is the date of termination for an employee who terminated employment in the current observation year and was active in the previous observation year.<br><br>Note:<br>If this field is left blank or is invalid, an assumption may be made by the NAIC (as described in the data dictionary) to approximate the participant's date of termination. |
| 26 | 8 | Participant's Date of Disability | Enter the numeric date in YYYYMMDD format if Status Code = 03, 04, 05, 06, or 07. For all other Status Codes, leave this field blank. |
| 27 | 8 | Participant's Date of Recovery from Disability | Enter the numeric date in YYYYMMDD format if Status Code = 06 or 07. For all other Status Codes, leave this field blank. |
| 28 | 2 | Normal Retirement Age | Enter the Normal Retirement Age as stated in the pension plan document. Leave this field blank if the Normal Retirement Date is more reliable.<br><br>Note: Either Item 28 (Normal Retirement Age) or Item 29 (Normal Retirement Date) must be provided, whichever is more reliable. |
| 29 | 8 | Normal Retirement Date | Enter the Normal Retirement Date as determined based on the pension plan document in YYYYMMDD format. Leave this field blank if the Normal Retirement Age is more reliable.<br><br>Note: Either Item 28 (Normal Retirement Age) or Item 29 (Normal Retirement Date) must be provided, whichever is more reliable. |
| 30 | 1 | Retirement Class | 1 = On or After Normal Retirement Date<br>2 = Before Normal Retirement Date<br>3 = Unknown |
| 31 | 8 | Date of Retirement | Enter the numeric date in YYYYMMDD format if Status Code = 04, 06, 08, or 09. |
| 32 | 7 | Participant's Total Monthly Pension | Enter the participant's total **monthly** pension. Include the monthly amount of any temporary life annuity, if applicable. Do not include any lump sum payments.<br><br>For participants not currently receiving a monthly pension (e.g. for Status Code = 1), leave this field blank. |



**Commented [AP24]:** The Pri-2012 study included the following approximation methodology to be used if this field was left blank or was invalid:

If a given participant had a valid amount provided for a different year, that amount will be assumed for the year(s) in which the provided value was invalid or missing. Otherwise, the amount will be assumed to be the plan-wide average for the applicable gender and collar type. If these values were not provided for any participants for a given plan, the study-wide average for the applicable collar type, status and gender will be assumed.

**Commented [AP25]:** The Pri-2012 study included the following approximation methodology:

Assume the date of termination occurs on the participant's birthday during the 12-month period during which the corresponding change in status code was observed. The purpose of this approach is to distribute imputed status change dates uniformly throughout the calendar year. This methodology is best illustrated by an example:
• 1/1/2012 status: Employee
• 1/1/2013 status: Terminated
• Date of birth: 8/1/1972
• Date of termination: Unknown

In this situation, the assumed date of termination would be 8/1/2012.

**Commented [AP26]:** How should this be populated if the plan offered subsidized early retirement (e.g. full benefits provided starting at age 62, but normal retirement age is 65)?

**Commented [AP27]:** Can this field be eliminated since we can determine it based on other fields?

How will this field be used?

| ITEM | MAXIMUM LENGTH | DATA ELEMENT | DESCRIPTION |
|---|---|---|---|
| | | | Note:<br>If this field is left blank or is invalid, an assumption may be made by the NAIC (as described in the data dictionary) to approximate the participant's total monthly pension. |
| 33 | 1 | Benefit Type | 1 = Life Only<br>This is defined as either Single Life with no Certain Period, or Joint & Survivor with no Certain Period.<br><br>2 = Life and Certain Period<br>This is defined as either Single Life with a Certain Period, or Joint & Survivor with a Certain Period.<br><br>3=Cash Refund Annuity<br><br>4=Unknown Benefit Type |
| 34 | 1 | Survivor Options | 1 = None (Single Life Only)<br>2 = 1-50% Joint & Survivor<br>3 = 51-75% Joint & Survivor<br>4 = 76-100% Joint & Survivor |
| 35 | 2 | Certain Period | Enter the Certain Period in years if Benefit Type = 2. For all other Benefit Types, leave this field blank. |
| 36 | | Temporary Life Annuity Indicator | Does the Participant's Total Monthly Pension include a Temporary Life Annuity, defined as an annuity that increases the monthly pension until a certain age or until death, whichever comes first?<br>1 = Yes<br>2 = No |
| 37 | | Temporary Life Annuity Termination Age | If the Temporary Life Annuity Indicator = 1, enter the age at which the Temporary Life Annuity expires. |
| 38 | 8 | Minimum Effective Date of Payments in Calendar Year | Enter the numeric date in YYYYMMDD format. |
| 39 | 8 | Maximum Effective Date of Payments in Calendar Year | Enter the numeric date in YYYYMMDD format. |
| 40 | 8 | Date of Last Payment | Enter the numeric date in YYYYMMDD format if Status Code = 09 or 13. For all other Status Codes, leave blank. |

**Commented [AP28]:** The Pri-2012 study included the following approximation methodology:

If a given participant had a valid amount provided for a different observation year, that amount will be assumed for the year(s) in which the provided value was invalid or missing. Otherwise, the amount will be assumed to be the plan-wide average for the applicable gender and collar type. If these values were not provided for any participants for a given plan, the study-wide average for the applicable collar type, status and gender will be assumed.

**Commented [PA29]:** This data element was included in the ACLI's comment letter. What information is it intended to capture?

**Commented [PA30]:** This data element was included in the ACLI's comment letter. What information is it intended to capture?

**Commented [PA31]:** Is this the intent? What is this field meant to capture?

| ITEM | MAXIMUM LENGTH | DATA ELEMENT | DESCRIPTION |
|---|---|---|---|
| 41 | 8 | Participant's Date of Death | Enter the numeric date in YYYYMMDD format if Status Code = 14. For all other Status Codes, leave blank.<br><br>Note:<br>If this field is left blank or is invalid, an assumption may be made by the NAIC (as described in the data dictionary) to approximate the participant's date of death. |
| 42 | 20 | Contingent Survivor Participant ID | Enter a unique identifying number for the contingent survivor. This must be carried through consistently for all observation years, including annual updates of the contingent survivor's status code and other data.<br><br>Leave this field blank if there is no contingent survivor. |
| 43 | 8 | Contingent Survivor's Date of Birth | Enter the numeric date in YYYYMMDD format.<br><br>Leave this field blank if there is no contingent survivor. |
| 44 | 1 | Contingent Survivor's Gender | 1 = Male<br>2 = Female<br><br>Leave this field blank if there is no contingent survivor. |
| 45 | 8 | Contingent Survivor's Benefit Start Date | Enter the numeric date in YYYYMMDD format if Status Code = 11, 12, or 13.<br><br>Leave this field blank if there is no contingent survivor. |
| 46 | 8 | Contingent Survivor's Date of Death | Enter the numeric date in YYYYMMDD format if Status Code = 15. For all other Status Codes, leave blank.<br><br>Leave this field blank if there is no contingent survivor. |
| 47 | 5 | Zip Code | Enter participant's home zip code. |

**Commented [AP32]:** The Pri-2012 study included the following approximation methodology:

Assume the date of death occurs on the participant's half birthday (rather than the participant's birthday). This methodology is best illustrated by an example:
• 1/1/2012 status: Employee
• 1/1/2013 status: Deceased
• Date of birth: 8/1/1972
• Date of death: Unknown

In this situation, the assumed date of death would be 2/1/2012. The reason for using the participant's half birthday pertains to the actuarial method for tabulating exposures, which will be used for this study. Under the actuarial method, a participant who dies during the study period is credited with exposure through the individual's next birthday. An assumed death date on the participant's birthday would, therefore, add a full extra year of exposure after death, whereas an assumed death date on the participant's half birthday only credits an additional half year after death. The additional half year is a better approximation for the average additional exposure credited to participants provided with valid dates of death.

**Commented [AP33]:** How will this be used? Could the participant's state of residence be used instead?

Agenda Item 3

Consider Adoption of the Report of the

Valuation Manual (VM)-22 (A) Subgroup

August 11, 2024

**From:** Ben Slutsker, Chairperson
Elaine Lam, Vice Chairperson
The VM-22 (A) Subgroup

**To:** Rachel Hemphill, Chair
The Life Actuarial (A) Task Force

**Subject:** The Report of the VM-22 (A) Subgroup to the Life Actuarial (A) Task Force

The NAIC VM-22 (A) Subgroup has met multiple times since the NAIC Fall National Meeting. The primary focus of the group is currently on the VM-22 field test, which started on July 31 and will end on September 30. Over a third of non-variable annuity writers signed up to participate, with representation across all major product categories. The Subgroup intends to use results from the field test to make key decisions on the reinvestment strategy guardrail, the threshold for the stochastic exclusion ratio test, and modifications to assumptions currently set for the Standard Projection Amount (SPA). In addition, the field test will provide a picture of how the VM-22 principles-based reserve (PBR) calculation compares to the current CARVM requirements.

The VM-22 Subgroup has completed initial drafts for VM-22, the SPA, VM-31 disclosure requirements, edits to VM-G, and the VM-22 PBR Supplement for the NAIC Annual Statement, all of which are available on the NAIC webpage for the VM-22 Subgroup. There have been multiple rounds of exposure and feedback incorporated into these documents, with the exception of assumptions in the latest SPA draft (which are currently exposed for public comment until the end of the field test on September 30). In addition, there has been discussion on the methodology for longevity reinsurance, for which Subgroup members expressed initial preference for the “k-factor” approach, but this topic will be revisited after the conclusion of the field test.

Going forward, the Subgroup plans to hold calls through Spring of 2025 to finalize remaining decisions on the framework, after which an official recommendation will be made to the NAIC Life Actuarial (A) Task Force. The goal for the Subgroup continues to be adoption for an initial effective date of 1/1/2026, accompanied by a three year implementation period that ends on 1/1/2029, after which PBR will become mandatory for non-variable annuity contracts on a prospective basis.

Draft: 6/24/24

Valuation Manual (VM)-22 (A) Subgroup
Virtual Meeting
June 4, 2024

The VM-22 (A) Subgroup of the Life Actuarial (A) Task Force met June 4, 2024. The following Subgroup members participated: Ben Slutsker, Chair (MN); Elaine Lam, Vice Chair (CA); Lei Rao-Knight (CT); Mike Yanacheak (IA); John Rehagen (MO); Seong-min Eom (NJ); Bill Carmello (NY); Rachel Hemphill and Iris Huang (TX); and Craig Chupp (VA).

1. Exposed the Longevity Reinsurance Proposal

Slutsker provided an overview of the May 29 longevity reinsurance discussion, during which the American Council of Life Insurers (ACLI) presented an alternative reserving methodology to the K-factor approach for longevity reinsurance. Slutsker said that based on the May 29 straw poll, the Subgroup was not ready to vote for a preference on methodology. Slutsker noted that the ACLI planned to provide some examples in the coming weeks to demonstrate how the K-factor and the proposed approaches would work under different scenarios so that the Subgroup would have more information on which to form their decisions.

Slutsker exposed the ACLI's longevity reinsurance proposal provided in edits to the VM-22 draft for a 119-day public comment period ending Sept. 30.

2. Discussed the Initial Spread Bonus Placeholder in the VM-22 SPA Draft

Slutsker raised a point about revisiting the initial bonus spread placeholder in C.11.c(ii) of the standard projection amount (SPA) draft. Slutsker sought feedback from the Subgroup on whether the initial bonus values should be filled out in the draft or if the bonus can be any amount. Slutsker said that the value of 0.5% is reflected in the current draft for the purpose of the field test. Slutsker added that the Subgroup would like to have more discussions following the field test and asked companies for additional commentary and testing for those who would like to see limits higher than those reflected in the draft.

3. Exposed VM-22 Section 6, ASPA Draft

Lam presented the policyholder behavior assumptions in the updated VM-22 SPA draft used for the additional standard projection amount (ASPA) calculation as well as the side-by-side comparison of the dynamic lapse formula initially proposed by the VM-22 Policyholder Behavior Assumptions Drafting Group in Fall 2023, the American Academy of Actuaries (Academy), and the Drafting Group's current proposal (Attachment A).

Chupp suggested defining the guaranteed minimum interest rate factor as "1" instead of "None" in the dynamic lapse formula for fixed-indexed annuities to avoid ambiguity. Lam and Slutsker agreed. Carmello noted a lack of data on interest-sensitive surrenders because the data these assumptions are based on ended in 2022, the year the interest rates popped up. Carmello said there was only one year with higher interest rates, whereas there were several years before that with a lower interest rate environment, which made it challenging to calibrate the dynamic lapse formula.

Huijing Sullivan (Jackson National Life Insurance Company) suggested clarifying partial withdrawal assumption language in VM-22, Section 6.C.4.a because it does not mention what to do for accumulation reserving category contracts after exercising the guaranteed living benefit (GLB). Slutsker noted that the table of partial withdrawal assumptions addresses which assumptions should be used before and after exercising the GLB. Lam suggested striking the phrase "either without a guaranteed living benefit or prior to exercising a guaranteed living benefit" from Section 6.C.4.a. Carmello and Slutsker agreed.

Sullivan suggested clarifying Section 6.C.4.c because it is unclear which products this would apply to when compared to Section 6.C.4.a. Slutsker suggested striking Section 6.C.4.c because the partial withdrawals are already addressed in the tables and leaving it in would cause an unnecessary conflict. Lam and Carmello agreed.

Sullivan suggested clarifying Section 6.C.4.g to better understand to which contracts this partial withdrawal requirement would apply. Carmello suggested striking the paragraph because the partial withdrawal assumptions are reflected in tables in the draft. Carmello added that if it was for products with a guaranteed death benefit, it is rare on fixed annuity products. Slutsker agreed to strike Section 6.C.4.g. from the draft as it was unclear which contracts the assumption would apply.

The Subgroup agreed to expose the VM-22 SPA draft with the edits to: 1) strike "either without a guaranteed living benefit or prior to exercising a guaranteed living benefit" from C.4.a; 2) remove paragraph C.4.c and C.4.g; and 3) set the guaranteed minimum interest rate factor to "1" instead of "None" in the dynamic lapse formula for fixed indexed annuities for a 119-day public comment period ending Sept. 30.

4. Discussed Other Matters

Slutsker noted that the Subgroup will reconvene in the fall after the field test ends to discuss the results and the remaining decisions on the framework and address comments participants have.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/VM-22 Calls/06 04/Jun 04 Minutes.docx

Draft: 7/10/24

Valuation Manual (VM)-22 (A) Subgroup
Virtual Meeting
May 29, 2024

The VM-22 (A) Subgroup of the Life Actuarial (A) Task Force met May 29, 2024. The following Subgroup members participated: Ben Slutsker, Chair (MN); Elaine Lam, Vice Chair (CA); Lei Rao-Knight (CT); Mike Yanacheak (IA); Vincent Tsang (IL); Seong-min Eom (NJ); Bill Carmello (NY); Rachel Hemphill and Iris Huang (TX); Tomasz Serbinowski (UT); and Craig Chupp (VA).

1. Heard a Presentation from the ACLI on Longevity Reinsurance

Slutsker introduced the longevity reinsurance topic and noted that because these contracts have recurring premiums, the product was identified as potentially requiring a different reserve methodology during the drafting of the VM-22 principle-based reserving (PBR) framework. Slutsker noted that concerns were expressed about the potential for negative reserves under a principles-based framework, reserve sufficiency due to these negative reserves offsetting blocks, and whether any margins were needed. Slutsker said a K-factor proposal discussed at that time is currently in the VM-22 draft.

Brian Bayerle (American Council of Life Insurers—ACLI) presented an alternative approach to the K-factor methodology for reserving for longevity risk transfer (LRT) contracts, which would involve a treaty-level floor of zero and no K-factor (Attachment A). Bayerle argued that this approach would be simpler, more principle-based, and more aligned with state insurance regulators' concerns. Bayerle offered to provide the proposal in a redline of the VM-22 draft.

Slutsker inquired about the features of the LRT market, including whether LRT contracts usually have premiums guaranteed for the fixed portion of the contract and if those premiums tend to have a slope following expected mortality. Bayerle said there is a guaranteed aspect to the premiums associated with the contract. Armand Wandji (Prudential) said that fixed premiums follow an expectation of longevity and that there is a slow decrease in premium over time. Wandji stated that the LRT business in the U.S. includes U.S. and UK cedants and could include cedants from other jurisdictions. Bayerle said the proposal is from the perspective of the U.S.-assuming company. Tsang said that while the proposal is from an assuming company perspective, there should be an application to the U.S.-ceding companies.

Chupp asked the ACLI if the proposal's intention was to keep the longevity reinsurance in its own reserving category so that it cannot be aggregated with other reserve categories. Bayerle confirmed the ACLI proposal retains the longevity reinsurance reserve category. Bayerle said that because the ACLI proposal floors each treaty, in theory, the reserve would not be negative within the reserving category. Bayerle added that the proposal does not necessarily align with companies' management actions; however, the companies' perspective is that the K-factor approach could be quite technical to implement, particularly if done at a treaty level.

Eom said she had proposed the static K-factor approach in the current VM-22 draft for company convenience but was open to K-factor unlocking if that would allow the approach to work. Eom described the K-factor unlocking process as replacing the previously anticipated cashflows with the historical actual cashflows from the time of issue, recalculating the K-factor, and then reapplying the unlocked K-factor. Tsang said a flexible K-factor approach could be viable for companies without a lot of longevity contracts because of the need for a K-factor for each contract. Eom noted the K-factors across contracts are independent and thus may differ because companies could set the mortality assumption based on the contract and could consequently use discretion to update a contract's

K-factor. Bayerle said that unlocking the K-factor would add complexity due to the need to track historical cash flows.

Hemphill asked Eom to elaborate on the situations in which the K-factor approach would be more beneficial than the treaty-level floor, given the complexity of the K-factor approach. Eom said a contract may have zero reserves for a long time without the K-factor, depending on the experience and the assumptions. Yanacheak added that under the ACLI approach, in a situation where experience develops worse than the prudent best estimate, there could be many early years with zero reserves until it finally accumulates. At that point, it may be too late, compared to the K-factor approach, where reserves would start developing in earlier years. Yanacheak suggested discussing the timing of when the reserves should be developed under these circumstances.

Hemphill noted that the K-factor approach seemed to be a hybrid of the principles-based and formulaic approaches. She acknowledged that while state insurance regulators have implemented formulaic floors as part of PBR, the concerns regarding exactly how or when the unlocking should be performed add complexity. Hemphill added that she liked the simplicity of flooring at the treaty level instead of the K-factor approach to address negative reserves but wanted to hear the concerns about the differences. Hemphill said it would be helpful for the ACLI to further illuminate those differences. Carmello voiced support for a K-factor approach as a floor.

Tsang asked the ACLI to demonstrate some sample contracts' reserves under the K-factor approach under the current VM-22 draft and the ACLI proposal and how the reserve credit works. Slutsker suggested the examples show each method under baseline mortality, unfavorable mortality, and favorable mortality experience. Eom suggested a demonstration of the K-factor method with and without applying the static K-factor. Bayerle replied that the ACLI can provide a demonstration of the mechanics of the K-factor approach compared to the ACLI proposal and will work to illustrate some of the suggestions. Wandji said they could investigate illustrating how a reserve credit could work.

Slutsker requested a straw poll for Subgroup members to indicate their preference for the ACLI proposal or the K-factor approach (or abstain). The straw poll resulted in a tie between abstentions and the K-factor approach. One member was leaning toward the ACLI proposal. Slutsker said the Subgroup will need more information and examples of how the proposals work and will plan for another vote after reviewing examples and more discussion.

2. <u>Discussed Other Matters</u>

Slutsker provided an update on the status of the implementation timeline and announced that the VM-22 field test would start July 31 and end Sept. 30.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/VM-22 Calls/05 29/VM22 May 29 Minutes.docx

Draft: 5/14/24

Valuation Manual (VM)-22 (A) Subgroup
Virtual Meeting
April 10, 2024

The VM-22 (A) Subgroup of the Life Actuarial (A) Task Force met April 10, 2024. The following Subgroup members participated: Ben Slutsker, Chair (MN); Elaine Lam, Vice Chair (CA); Lei Rao-Knight (CT); Seong-min Eom (NJ); Bill Carmello (NY); Rachel Hemphill and Iris Huang (TX); Tomasz Serbinowski (UT); and Craig Chupp (VA).

1. Discussed VM-31 Comments on NGE Disclosures

Slutsker summarized the Subgroup's discussion and suggested consolidations regarding comments about the non-guaranteed element (NGE) disclosures in the VM-31 draft from March 25.

Bruce Friedland (American Academy of Actuaries—Academy) noted the change to consolidate interest crediting strategy disclosures from Section 3.F.3.b into Section 3.F.9 and clarify the distinctions between the company's interest crediting strategies and the disclosures regarding how the strategy was modeled were acceptable. The Subgroup agreed to use the consolidated requirements as represented in proposed Section 3.F.9.f.

Friedland noted the existing language regarding past practices and policies under the NGE section is broad and suggested limiting the disclosure to a specified time frame, as prior periods may not be relevant. Carmello suggested that "relevant past NGE practices and policies" may be sufficient language. Hemphill said she supports including the word relevant but is concerned with including a specific time frame due to variation across companies. Lam concurred with Carmello and Hemphill. The Subgroup agreed to clarify without setting a specific time frame that the disclosure should include a discussion of relevant past practices.

2. Discussed its Next Steps

The VM-22 field test will follow the 2024 Generator of Economic Scenarios (GOES) field test, and the Subgroup will discuss C3 Phase I methodology during future meetings.

Slutsker noted that some assumptions remain regarding the standard projection amount (SPA) to be presented to the Subgroup for non-indexed fixed deferred annuity surrender, partial withdrawal, and dynamic lapse assumptions. The Subgroup will also be looking to make updates to the VM-22 draft to include the SPA mortality.

Slutsker noted the updated drafts for VM-31, VM-22 Reserve Supplement blank, and VM-G, with the incorporated comments and decisions for each, will be available on the NAIC website for reference.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/VM-22 Calls/04 10/Apr 10 Minutes.docx

Draft: 5/14/24

Valuation Manual (VM)-22 (A) Subgroup
Virtual Meeting
March 25, 2024

The VM-22 (A) Subgroup of the Life Actuarial (A) Task Force met March 25, 2024. The following Subgroup members participated: Ben Slutsker, Chair (MN); Elaine Lam, Vice Chair (CA); Lei Rao-Knight (CT); Vincent Tsang (IL); William Leung (MO); Bill Carmello (NY); Rachel Hemphill and Iris Huang (TX); and Tomasz Serbinowski (UT).

1. Discussed the VM-22 Reserves Supplement Draft

Slutsker recapped the updated line descriptions for individual and group payout annuities in the VM-22 Reserves Supplement discussed during the Feb. 28 call. Slutsker suggested that a similar clarification may be needed for the pension risk transfer and group payout line by striking the phrase “immediate and deferred” from the line description. Slutsker noted that these changes were made in Parts 1A and 1B for both the pre- and post-reinsurance lines. The Subgroup agreed without objection to moving forward with these changes.

Slutsker presented the footnote added to Part 1A of the draft, which clarifies that the groupings provided in the rows of the supplement are different than the groupings permitted for aggregation purposes under VM-22 requirements. Brian Bayerle (American Council of Life Insurers—ACLI) noted the edit was consistent with the ACLI’s comment. The Subgroup agreed without objection to moving forward with these changes.

Slutsker presented a redlined version of the changes to Part 1B as well as a clean version formatted by the Blanks (E) Working Group support staff to illustrate: 1) how a large number of additional columns would display the components of the additional standard projection amount (ASPA) calculation; and 2) that state insurance regulators will be able to verify the calculations are being performed as intended (Attachment A). Lam and Hemphill said they favored the granularity of the changes in the revised version. Hemphill suggested the additional granularity of Part 1B be brought up to the Life Actuarial (A) Task Force or the Variable Annuities and Capital Reserve (E/A) Subgroup to consider for the Variable Annuities Supplement.

Huijing Sullivan (Jackson National Life Insurance Company—Jackson) asked for clarification, potentially through a footnote, regarding the assumption basis of the CTE70 adjusted calculation expected to be reported in Part 1B, Column 3. Hemphill clarified that the CTE70 adjusted amount in Column 3 is based on company-based assumptions, whereas the Prescribed Projection Amount Column is based on prescribed assumptions. Hemphill added that filling out the supplement will require familiarity with VM-22 and noted that adding footnotes for definitions that are already clearly defined in the *Valuation Manual* would make maintaining those definitions in both places challenging. Lam and Slutsker agreed with Hemphill. The Subgroup agreed to move forward with Part 1B as drafted in Attachment A.

2. Discussed Comments Received on the VM-31 Draft

Slutsker introduced an open decision point from the Feb. 28 meeting resulting from the ACLI’s concerns with the current draft’s having VM-22 disclosure requirements in the same section as the VM-21 disclosure requirements. Some Subgroup members, considering ACLI input, drafted advantages of retaining the existing approach versus those of creating separate sections in VM-31 for non-variable and variable annuities (VAs) (Attachment B).

Bayerle agreed that the pros and cons were adequately captured and noted that the ACLI member consensus was to have separate sections, though they do not speak for all companies. Sullivan voiced a preference for separate sections based on the advantages discussed. Philip Wunderlich (Nationwide Mutual Insurance Company) noted that from a practitioner's point of view, it is preferable to have them separate. Bruce Friedland (representing himself) said the requirements should be separated because this is a new requirement for non-VAs, and for practitioners who are not involved with VM-20 or VM-21 requirements, it would be better to have separate sections now and consider consolidating later.

Lam said she supported keeping disclosures in the same section of VM-31 from a maintenance perspective due to the significant overlap in requirements; however, it should be clear if a requirement applies to only VAs or only non-VAs. Knight agreed with Lam.

Hemphill pointed out that many reasons supporting separate sections in VM-31, besides VM-21 and VM-22 themselves being separate, could also argue for separate sections for VM-20 Term, universal life with secondary guarantees (ULSG), and other permanent products. Hemphill continued that specific disclosures exist for the different product categories and sometimes different qualified actuaries doing the life sub-reports. Hemphill noted that the same section approach for life disclosure requirements in VM-31 works and supports keeping the VM-21 and VM-22 disclosure requirements in one annuity section for consistency.

Slutsker polled the Subgroup to determine a path forward for the structure of the VM-31 draft. The voting options were to keep the VM-21 and VM-22 requirements together as currently drafted, separate them, or abstain if members had no strong preference. Three members preferred to keep the requirements in the same section, two preferred to have separate sections, and two abstained. The Subgroup, therefore, decided to move forward with the existing structure of keeping the requirements together as currently drafted, with the option of revisiting the issue later.

Slutsker invited the parties that commented on the non-guaranteed elements (NGEs) section to discuss. Friedland (American Academy of Actuaries—Academy) noted some overlap between the NGE section and other sections, specifically the interest crediting strategy disclosures in Section 3.F.3.b and Section 3.F.9. Huang and Hemphill noted that Section 3.F.9 is intended to have companies describe how they model the interest crediting strategy, whereas 3.F.3.b is for companies to discuss the actual interest crediting strategy features on the products. Leung suggested adding "modeling" to Section 3.F.9 to differentiate between describing the interest crediting strategy and describing the modeling of the strategy. Hemphill suggested consolidating interest crediting strategy disclosures from Section 3.F.3.b into Section 3.F.9. Leung agreed with Hemphill. Lam noted that if the sections are combined, ensure the language retains the intent that the company needs to discuss the distinction between the index crediting strategies offered on the products and the modeling of those strategies, including any simplifications. Slutsker and a few Subgroup members will bring a draft of the NGE section edits to discuss on the next call.

3. Discussed its Next Steps

The Subgroup will continue to discuss comments received on the NGE section of the VM-31 draft during its April 10 meeting.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/VM-22 Calls/03 25/Mar 25 Minutes.docx

Agenda Item 4

Receive an Update on the Generator of Economic Scenarios (GOES) Field Test and Consider Adoption of the Report of the GOES (E/A) Subgroup

NATIONAL MEETING
SUMMER / CHICAGO

# 4. Update on GOES Field Test and GOES (E/A) Subgroup Report

**Mike Yanacheak, Chair, GOES (E/A) Subgroup**
**Scott O'Neal**

August 11, 2024

# Status of Field and Model Office Testing

**Participants:
37 Legal Entities
24 Groups**

- There are five required runs using the new GOES field test scenario sets. The runs test the latest calibration of the GOES at of year-end 2023, other alternative Treasury starting conditions, and also include an equity market drop sensitivity.
- There are also seven optional field test runs that include additional Treasury, bond, and equity sensitivities along with a scenario set that uses an alternative initial yield curve fitting methodology.
- Confidential, participant-to-regulator discussions are being held and will continue through at least August. Seven groups have already presented.
- Variable annuity model office testing results were presented in early June and life model office results will be shared later today.

**Required Field Test Runs:**

| Field Test Run | Scenario Sets | Inforce |
|---|---|---|
| **Baseline** | Scenario set(s) the company used for 12/31/23 statutory reporting of reserves and RBC | As of 12/31/23 |
| **#1 - GOES** | Conning scenarios as of 12/31/23 | As of 12/31/23 |
| **#2 - Low Rate Shock** | Conning scenarios with a starting UST yield curve as of 3/9/20 but with 12/31/23 starting credit spreads. | As of 12/31/23, but modified as necessary for a different starting UST yield curve. |
| **#3 - Up Rate Shock** | Conning scenarios with a starting UST yield curve as of 10/31/89 but with 12/31/23 starting credit spreads. | |
| **#4 - Normal Yield Curve** | Conning scenarios with a starting UST yield curve as of 12/31/04 but with 12/31/23 starting credit spreads. | |
| **#5 - Down Equity Shock** | Same as #1 | As of 12/31/23, but modified for a 25% drop in equity markets. |



# Initial Field Test Takeaways

## Initial Takeaways

- Participants are asked to share their quantitative field test results along qualitative discussions on several topics (see right).
- Addressing each of these items can be challenging in 15- to 30-minute presentations followed by Q&A.
- After regulator feedback, NAIC Staff sent out example slides with charts and graphs that could be used to quickly summarize field test results for each of the tested frameworks (VM-20, VM-21/C3P2, C3P1).
- Participants have shared key insights on how the new scenarios impact their business.
- There may be additional follow-up questions for participants after the initial discussions. Regulators can email soneal@naic.org with questions for participants.

## Items to Include in Confidential Discussions

- Field Test Result Summaries
- Discussion of Simplified Modeling Approaches
- Comparison to Model Office Results
- Limitations of Model Office Approach
- Concerns with GOES



# Next Steps

## Conclude 2024 GOES Field Test

- Finish conducting participant-to-regulator discussions
- Summarize key findings for public discussion while preserving confidentiality
- Share results from the life model office analysis at Summer NAIC National Meeting
- Answer any remaining questions using model office

## Continue Work of GOES (E/A) Subgroup

- Develop and approve GOES model governance framework*
- Streamline and enhance documentation*
- Refine GOES calibration, as needed, after incorporating lessons learned from field and model office testing
- Recommend final VM-20 Stochastic Exclusion Ratio Test methodology, scenario picking tool, and statistical reports

## Adoption of GOES

- Once the GOES (E/A) Subgroup finalizes a recommendation, the Life Actuarial (A) Task Force and Life RBC (E) Working Group will adopt necessary changes into the Valuation Manual and RBC Instructions.
- **The GOES will not be required any sooner than 2026.** However, early adoption may be possible depending on the will of the GOES (E/A) Subgroup and parent groups in the NAIC Committee structure.

*Model governance program and documentation will be revised and enhanced on an ongoing basis



Generator of Economic Scenarios (GOES) (A) Subgroup
Virtual Meeting
June 12, 2024

The GOES (A) Subgroup of the Life Actuarial (A) Task Force met June 12, 2024. The following Subgroup members participated: Mike Yanacheak, Chair (IA); Pete Weber, Vice Chair (OH); Ted Chang (CA); Wanchin Chou (CT); Scott Shover (IN); William Leung (MO); Ben Slutsker (MN); Bill Carmello (NY); Rachel Hemphill and Hattie Wang (TX); and Craig Chupp (VA).

1. Heard a Variable Annuity Model Office Results Presentation from Oliver Wyman

Simon Gervais (Oliver Wyman) presented model office results for the 2024 GOES Field Test scenario sets 1-6 (Attachment A). Gervais noted key take aways from the analysis are 1) the GOES Scenario Set 1 produced adverse results compared to the current Academy's generator due to the tail scenarios driving the CTE, 2) all the sensitivity scenario sets produced results consistent with expectations but noted a caveat is that the model uses reinvestment rates anchored to the ten year duration Treasury or corporate bonds and 3) Set 6 produced higher reserves than Set 1.

Connie Tang (Retired) asked how mandatory annuitizations were addressed in the model and asked if Oliver Wyman modeled a mandatory annuitization age so that the money would be out of equities at a certain point? Gervais took the question as a follow up.

Tim Ritter (Jackson National Life Insurance Company) asked for clarification regarding the basis of CTE70 values on slide twenty-one. Gervais noted the CTE70 values reflected the adjusted basis, not the best-efforts.

Gary Hu (Prudential) questioned how many of the scenarios in the CTE70 hit the floor relative to the baseline. Gervais said that additional follow-up could be done to assess the proportion of scenarios with reserves more than the CSV floor. Gervais added that the mature, strong, at-the-money cohort is an example of a situation where only a couple of scenarios out of the 300 were above the CSV.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/GOES SG Calls/06 12/June 12 Minutes.docx

Generator of Economic Scenarios (GOES) (A) Subgroup
Virtual Meeting
May 15, 2024

The GOES (A) Subgroup of the Life Actuarial (A) Task Force met May 15, 2024. The following Subgroup members participated: Mike Yanacheak, Chair (IA); Pete Weber, Vice Chair (OH); Lei Rao-Knight (CT); Philip Barlow (DC); Scott Shover (IN); William Leung (MO); Ben Slutsker (MN); Seong-min Eom (NJ); and Rachel Hemphill and Hattie Wang (TX).

1. Discussed SERT Scenarios

Dan Finn (Conning) presented technical details regarding how the Stochastic Exclusion Ratio Test (SERT) scenarios have been implemented by Conning and a comparison leveraging Matthew Kauffman's suggested approach (Attachment A). Matthew Kauffman said the difference between Conning's method and his made sense, and that the Conning approach was a better solution than his Euler approach. The Subgroup decided to move forward using Conning's methodology for SERT Scenarios.

Mark Tenney (Mathematical Finance Company - MFC) asked if the state variables and random numbers would be disclosed with the scenario sets. Finn said Conning will release the initial state variables and the initial vector, which closes the gap between the fitted scenario and initial yield. Finn said they will not be releasing the state variables along the scenario path or the random numbers.

2. Discussed Model Governance

Yanacheak continued the discussion on model governance from the May 1 GOES Subgroup meeting. Bayerle discussed ACLI member feedback noting the need for a clearly defined process governing ongoing operations around the routine monthly process, maintenance to generate scenarios and how those are validated (Attachment B). Steve Strommen (Blufftop) suggested adding responsibilities to the governance: 1) The monitoring that GOES is fit for purpose 2) someone needs to design exactly what documentation is going to be provided and keep it available and up to date. Scott O'Neal (NAIC) noted that NAIC is building a section of what will be part of the deliverable of the overall single source documentation to access model documentation and a log of maintenance history.

Tenney discussed his comment letter, highlighting the need for an alternative model that could relate to economic fundamentals in a more predictive way than the GOES model (Attachment C). Tenney said alternative models could help identify changing conditions and insights into the plausibility of scenarios, which may suggest the need for a GOES model calibration. Strommen suggested an area of future research is to consider variables, like inflation, that are not part of the model today and should be considered as the model's for fit for purpose is monitored.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/GOES SG Calls/05 15/May 15 Minutes.doc

Generator of Economic Scenarios (GOES) (A) Subgroup
Virtual Meeting
May 1, 2024

The GOES (A) Subgroup of the Life Actuarial (A) Task Force met May 1, 2024. The following Subgroup members participated: Mike Yanacheak, Chair (IA); Pete Weber, Vice Chair (OH); Ted Change (CA); Wanchin Chou (CT); Philip Barlow (DC); Scott Shover (IN); William Leung (MO); Seong-min Eom (NJ); Bill Carmello (NY); Rachel Hemphill and Hattie Wang (TX); and Craig Chupp (VA).

1. Discussed Model Governance

Scott O'Neal (NAIC) presented model governance topics related to roles and responsibilities to promote discussion with the goal of consensus regarding the model governance program (Attachment A). Weber asked where the documentation of the NAIC Committee Structure and governance process will reside and would it be part of the *Valuation Manual* (VM) and the Life RBC Blanks. O'Neal said that the governance process could be adopted by the Subgroup but may not necessarily need to be part of the VM. O'Neal noted that NAIC Staff will follow-up with Weber's suggestion to look at how other similar processes have been implemented at NAIC. Yanacheak stated it will be important to discuss as a group how the Subgroup should operate procedurally. Yanacheak added that a formal and permanent location could be discussed later when the process is in a less developmental stage.

Yanacheak noted the responsibilities during the validation process are going to be an important part of the process and one of the charges will come down to timeliness and limiting risks from errors. Hal Pedersen (American Academy of Actuaries—Academy) asked how the Subgroup envisions the validation process to work given the potential for issues to occur during scenario production. O'Neal responded that additional details would need to be worked out by the Subgroup, including what needs to happen when an error is discovered by a validation process that could potentially delay a scenario release.

Alan Morris (Academy) asked for details about the monthly validation process as well as the longer-term recalibration process and suggested the industry provide perspective. O'Neal noted that the NAIC is working on an initial draft of validation steps to be performed along with the validation report that will be produced. Randall McCumber (Lincoln Financial Group) asked how the validation report will interact with the acceptance criteria. O'Neal said that it makes sense to incorporate acceptance criteria into the validation, however, the Subgroup will need to discuss the tolerances around the acceptance criteria. Gary Hu (Prudential) suggested adding evaluation statistics to the validation report.

Connie Tang (Retired) asked what the scope of the periodic review ahead of recalibration would include. Yanacheak noted from a governance perspective the Subgroup will need to have a plan that will continue to research and a formal review frequency not longer than the five years that has been initially proposed. O'Neal added that there will be potential to bring model enhancements to the discussion as part of the continued research. Chou suggested a shorter frequency than five years in the beginning.

Morris suggested a mechanism for sharing concerns and escalating issues when the results are coming in contrary to expectations. Yanacheak noted there is not an expectation for a mechanism as formal as a Valuation Manual amendment proposal form, concerns could be raised with the company's primary regulator or brough directly to the Subgroup.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/GOES SG Calls/05 1/May 1 Minutes.doc

# Generator of Economic Scenarios (GOES) (A) Subgroup
Virtual Meeting
April 17, 2024

The GOES (A) Subgroup of the Life Actuarial (A) Task Force met in Apr. 17, 2024. The following Subgroup members participated: Mike Yanacheak, Chair (IA); Pete Weber, Vice Chair (OH); Ted Chang (CA); Philip Barlow (DC); Scott Shover (IN); Bill Carmello (NY); Rachel Hemphill (TX); and Craig Chupp (VA).

1. Provided an Update on the 2024 GOES Field Test

Scott O'Neal (NAIC) provided an update on the status of the generator of economic scenarios (GOES) field test, noting that scenario set #1 had been posted to the NAIC/Conning website. O'Neal said that the remaining field test scenario sets were being reviewed by the NAIC, and that scenario files and associated statistics would continue to be posted once the review is complete.

2. Discussed VM-20 SERT Scenario Methodology

O'Neal said that there had been ongoing technical discussions regarding the implementation of the Valuation Manual (VM)-20, Requirements for Principle-Based Reserves for Life Insurance stochastic exclusion ratio test (SERT) scenarios. Matt Kauffman (Moody's Analytics) noted that he still had some concerns with the SERT scenarios. In particular, Kauffman said that he expected the baseline (no shock) scenario to revert to the long-term target over time and he was not seeing that happen in the released SERT scenarios. Therefore, this called into question not only the baseline scenario, but all of the SERT scenarios. O'Neal noted that additional technical review and discussions of the SERT scenarios would take place until the Subgroup was comfortable with their implementation.

3. Discussed Questions Received on the C3 Phase I GOES Field Test Instructions

O'Neal noted that some participants had asked about the requested comparisons for the modeled C3 Phase I amount to the average "factor-based" C3 Phase I amount determined by formula. O'Neal walked through the risk-based capital (RBC) Instructions to illustrate how the factor-based and modeled amounts were determined and could be compared. Chou asked for a write-up with details of the comparison that could be used by participants to better understand the request.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/GOES SG Calls/04 17/April 17 Minutes.docx

Generator of Economic Scenarios (GOES) (A) Subgroup
Virtual Meeting
April 10, 2024

The GOES (A) Subgroup of the Life Actuarial (A) Task Force met in Apr. 10, 2024. The following Subgroup members participated: Mike Yanacheak, Chair (IA); Pete Weber, Vice Chair (OH); Ted Chang (CA); Philip Barlow (DC); Scott Shover (IN); Ben Slutsker (MN); Bill Carmello (NY); Rachel Hemphill (TX); and Craig Chupp (VA).

1. Reviewed Results from the Revised GOES Calibration

Scott O'Neal (NAIC) walked through a presentation (Attachment A) that illustrated how the results from the revised calibration of the generator of economic scenarios (GOES) compared against the acceptance criteria. After reviewing the high- and low-for-long Treasury rate criteria, Hemphill noted that revised calibration showed significant improvements and that further revisions ahead of the field test were unnecessary. Weber, Chang and Yanacheak agreed with Hemphill and, upon hearing no objection from other members, the Subgroup decided to move forward with the revised calibration for use in the field test.

2. Discussed Instructions for the 2024 GOES Field Test

O'Neal walked through revisions that had been made to the field test instructions (Attachment B). After hearing no questions or objections from Subgroup members, Yanacheak noted the Subgroup would move forward with the field test instructions for the 2024 GOES Field Test.

3. Discussed VM-20 Stochastic Exclusion Ratio Test Scenarios

Dan Finn (Conning) discussed the technical implementation of the Valuation Manual (VM)-20, Requirements for Principle-Based Reserves for Life Insurance stochastic exclusion ratio test (SERT) scenarios for the Conning GEMS® software. Iouri Karpov (Prudential) asked how the bond fund returns would work for the new SERT scenarios. Finn replied that 1) the Treasury returns will flow through directly into the bond fund yield, 2) the equity movement will impact the bond fund returns through the regular linkage present in the GEMS® model, and 3) that the transitions, defaults, and recoveries would all be dependent on the expected behavior relevant to the specific SERT scenario at that point in the projection.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/GOES SG Calls/04 10/April 10 Minutes.docx

 
© 2024 National Association of Insurance Commissioners 

Generator of Economic Scenarios (GOES) (A) Subgroup
Virtual Meeting
March 27, 2024

The GOES (A) Subgroup of the Life Actuarial (A) Task Force met in Mar. 27, 2024. The following Subgroup members participated: Mike Yanacheak, Chair (IA); Pete Weber, Vice Chair (OH); Ted Chang (CA); Wanchin Chou (CT); Philip Barlow (DC); Scott Shover (IN); William Leung (MO); Bill Carmello (NY); Rachel Hemphill (TX); and Craig Chupp (VA).

1. <u>Reviewed Results from the Current GOES Calibration</u>

Scott O'Neal (NAIC) walked through a presentation (Attachment A) that illustrated how the results from the latest calibration of the generator of economic scenarios (GOES) compared against the acceptance criteria. O'Neal said that the goal of the discussion is to determine whether the current calibration is suitable to be used in a second field test. Brian Bayerle (American Council of Life Insurers--ACLI) then presented the ACLI's review of the new scenario set (Attachment B). Bayerle noted that the ACLI was suggesting two key improvements; 1) targeting higher Treasury rates to meet more of the low- and high-for-long criteria and, 2) revising the equity calibration to align with the parameters used in scenario set six of the first field test.

Chang suggested making the ACLI's requested changes to target higher Treasury rates given the potential for improvement on the high-end of the targets. However, Chang felt that the equity calibration recommended by Conning did not need to be changed for the second field test as it met the acceptance criteria. Hemphill agreed with Chang. After hearing no objection from other subgroup members, Yanacheak said that the Subgroup would move forward with Chang's recommendation for the second field test scenarios.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/GOES SG Calls/03 27/March 27 Minutes.docx

Agenda Item 5

Consider Exposure of VM-20 Historical Mortality

Improvement (HMI) and Future

Mortality Improvement (FMI) Factors

SOA Research INSTITUTE

# Update on Life Insured Mortality Improvement Recommendation

Mortality Improvement Life Working Group
of the SOA Mortality and Longevity Oversight Advisory Council

AUGUST | 2024

# Presentation Disclaimer

*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.*

SOA Research INSTITUTE

# Agenda

- Historical Mortality Improvement (HMI) 2024 Recommendation
- Future Mortality Improvement (FMI) 2024 Recommendation
- Next Steps
  - Future update on recommended approach for estimating a life insured population MI basis

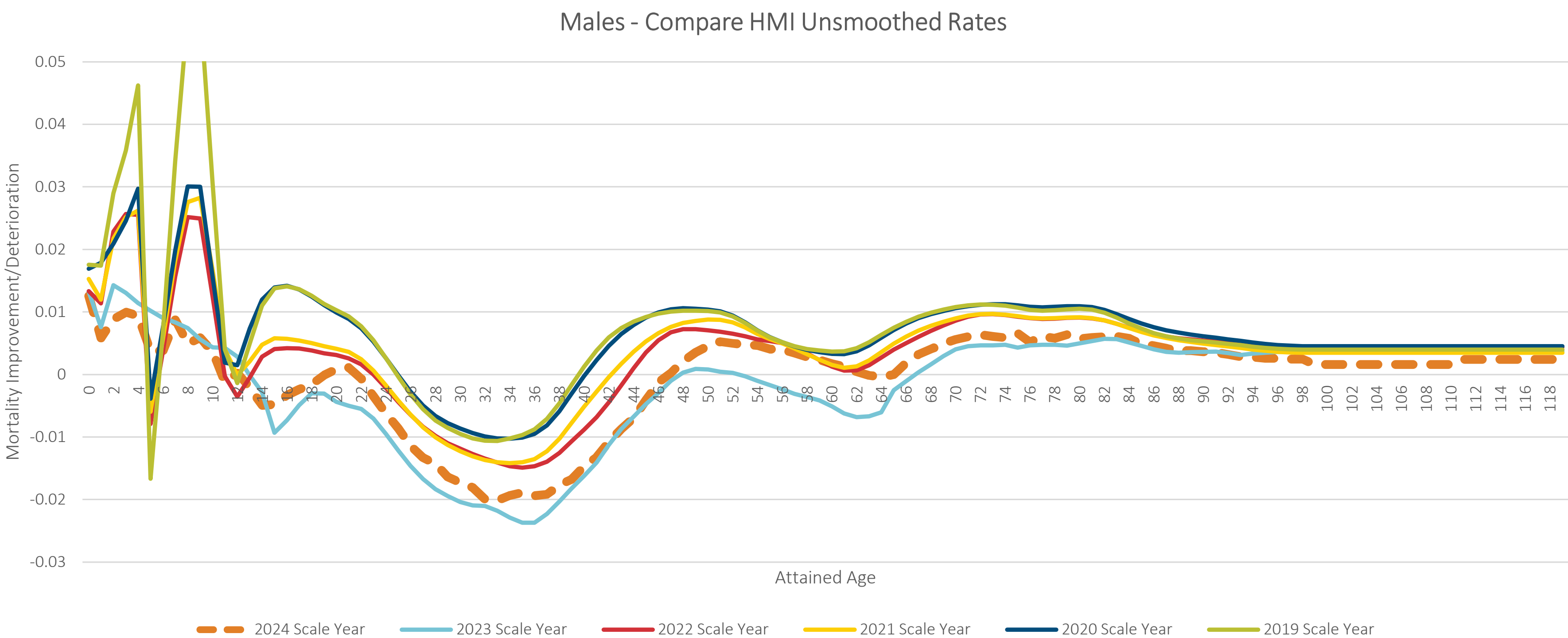
# HMI 2024

- HMI by attained age and gender
  - General population data - Social Security Administration (SSA)
  - No insured lives adjustment

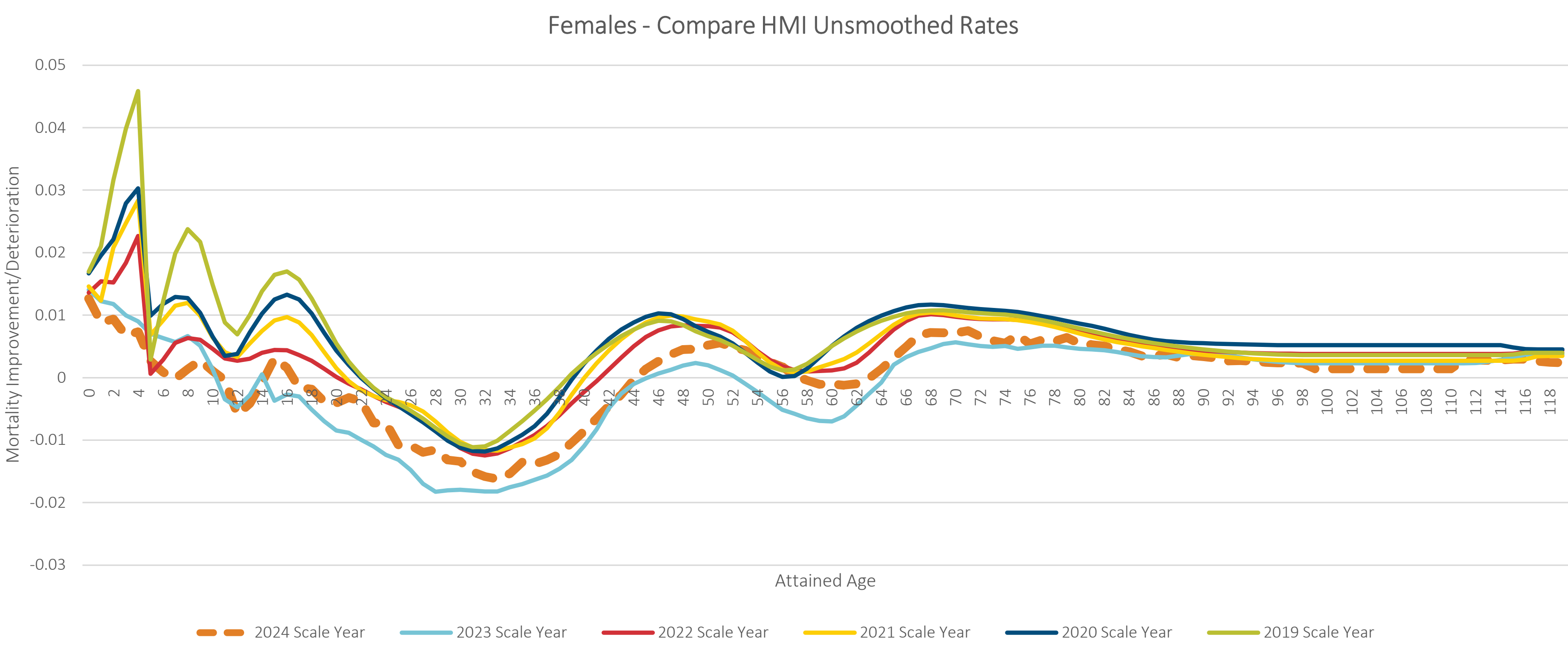
- HMI unsmoothed scale = average of historical and future components
  - Historical component = 10 years ending in 2022
    - No adjustment made to historical data for COVID impact (moving back to pre COVID standard methodology for 2024)
    - Geometric average – only reflects end points of historical period (2012/2022)
  - Future component = geometric average of SSA Intermediate Projection
    - 20 years – year end 2024-2044

- HMI Smoothed Scale
  - Averaging applied to smooth within age groups
  - 0-20, 30-40, 45-60, 65-84, 90+

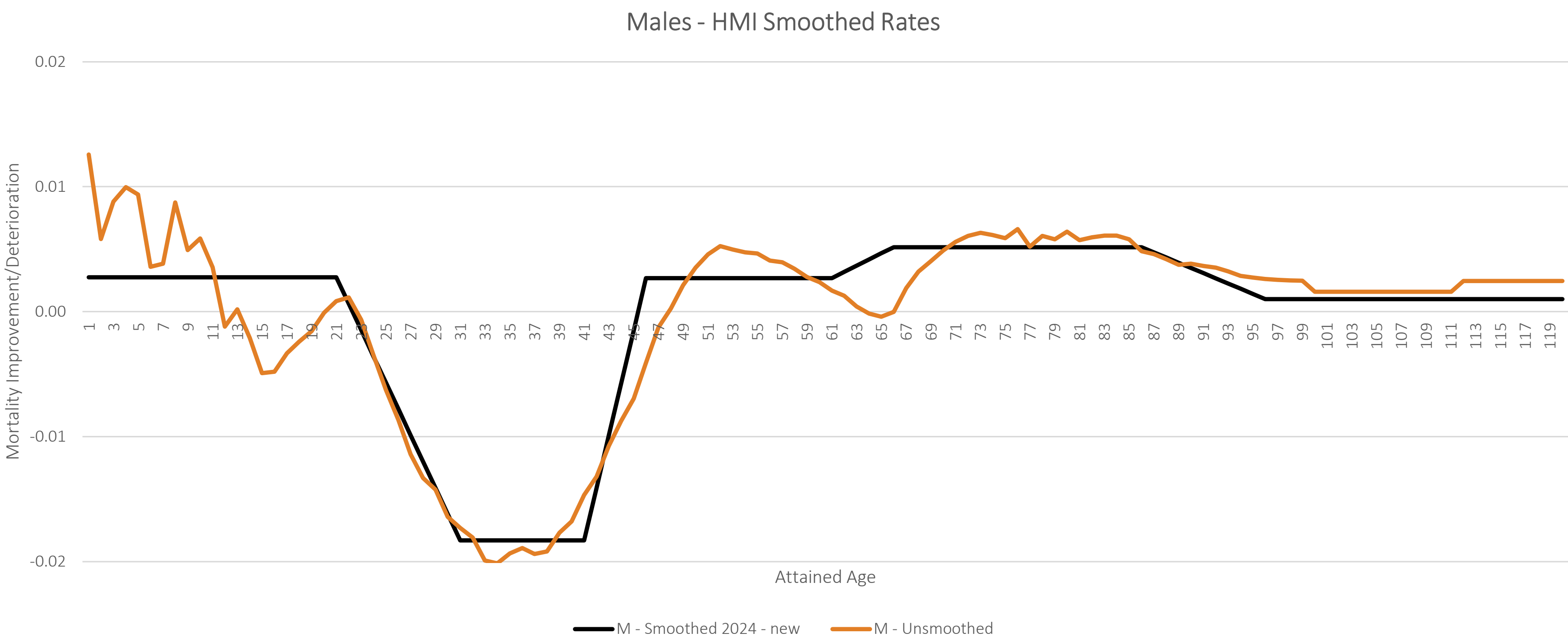
# 2024 HMI Unsmoothed Scale Comparison to Prior Years



# 2024 HMI Unsmoothed Scale Comparison to Prior Year Published Scales



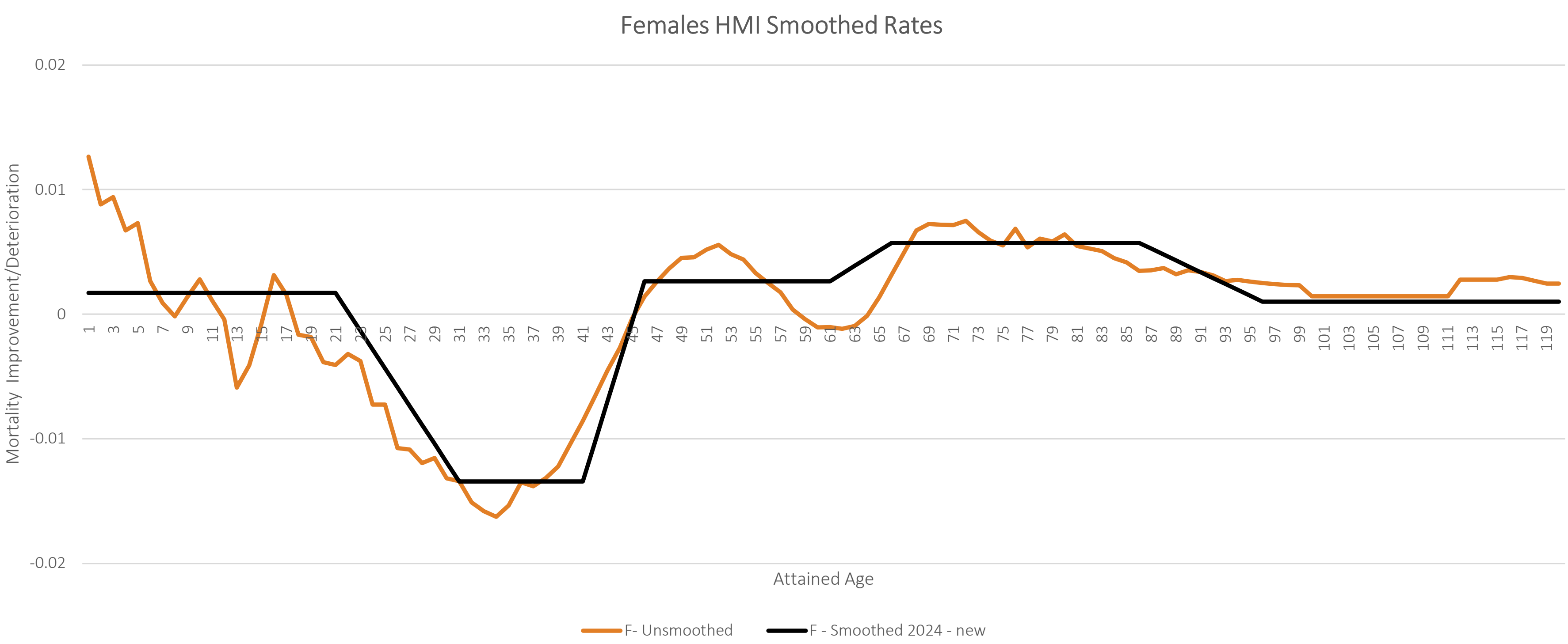
# 2024 HMI Smoothed Scale




Same age groupings for females and males so there is some constraint in the averaging ranges, accident and opioid impact and dip continues, age 65 dip

# 2024 HMI Smoothed Scale

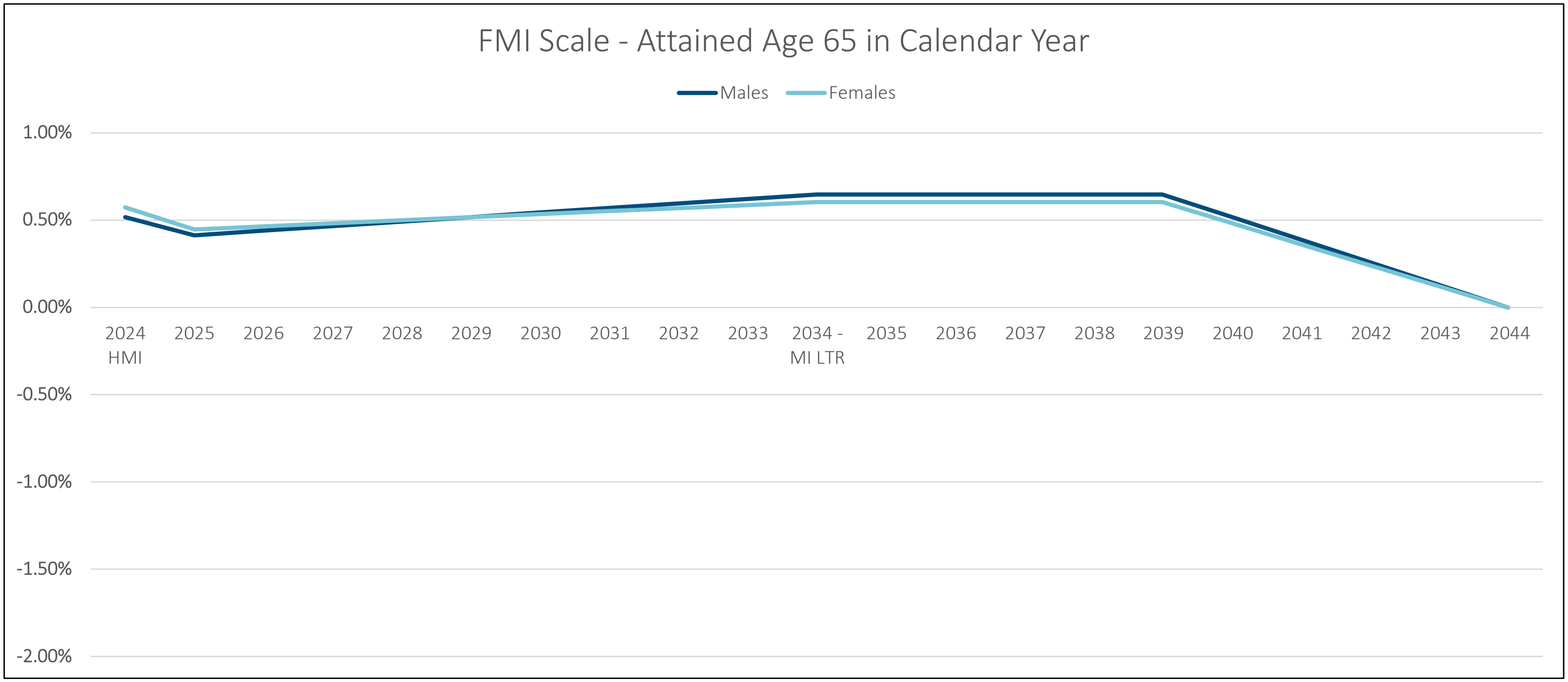


# FMI 2024

- FMI by attained age and gender
- 20 years of future improvement (MI rates grade to zero at reserve projection year 20
- For attained ages where HMI for 2024 is positive – apply standard methodology – example is age 65
- Standard Methodology
  - Grade linearly from 2024 HMI Smoothed Scale to long term mortality improvement rate (LTMIR) over the first 10 reserve projection years
    - LTMIR based on Social Security Administration projected mortality between 10 and 15 years from the valuation year
  - Remain level at LTMIR for next 5 reserve projection years
  - Grade linearly to zero FMI for remaining 5 reserve projection years
  - Margin = reduction in base FMI rates of 25%

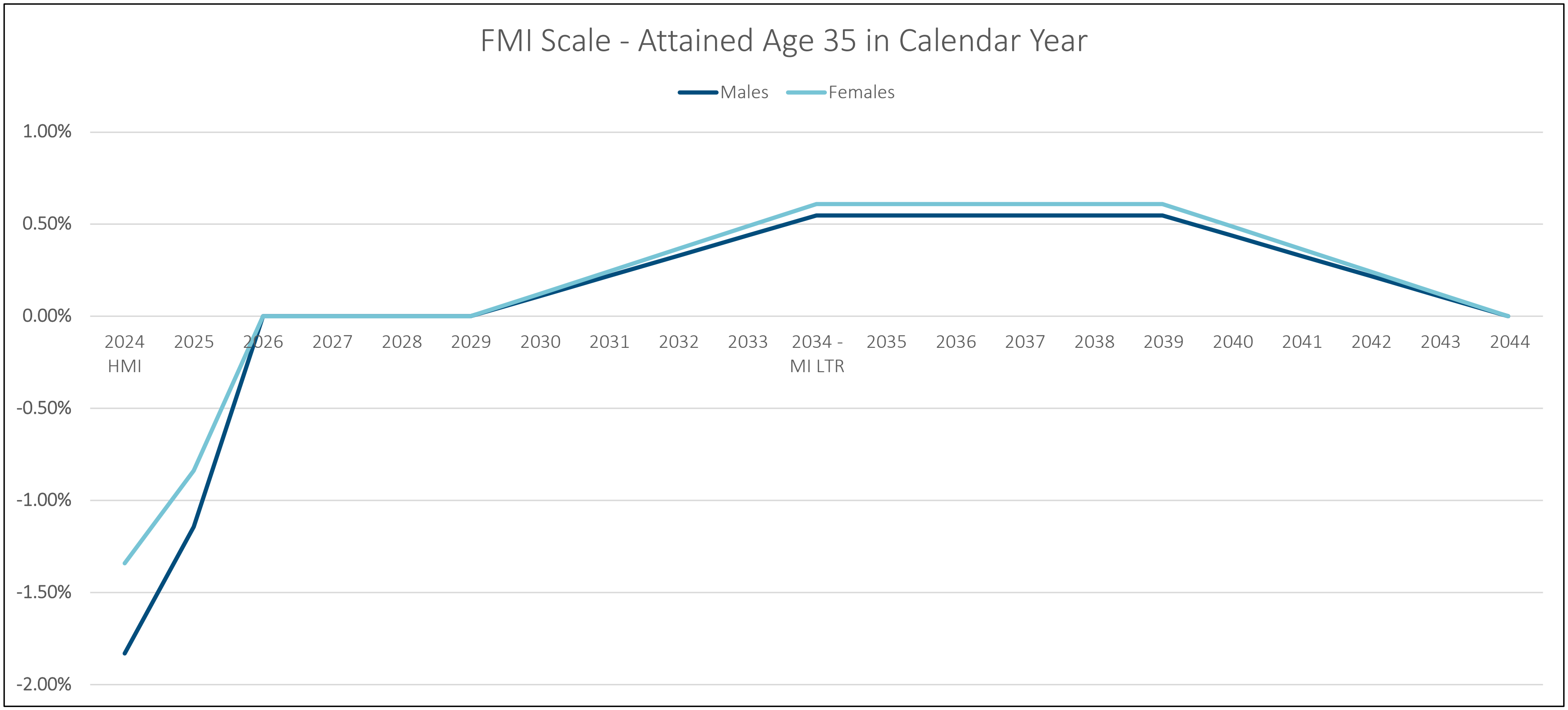
# 2024 FMI Scale with Margin – Age 65



# FMI 2024

- For attained ages where HMI for 2024 remains negative (ages 22- 48 for males, 18-44 for females) – apply past methodology of adjusting to positive mortality improvement at LTMIR over time – example is age 35
- For 2024, adjustment to positive mortality improvement used the following approach:
  - Reach zero improvement level at reserve projection year 2026
  - Remain at zero mortality improvement to year 2029
  - Grade to LTMIR at 2034
  - Remain level at LTMIR to 2039
  - Grade linearly to zero improvement at 2044

# 2024 FMI Scale with Margin – Age 35



# MI Recommendation – Fully Underwritten Business

- Where we started
  - Assumption that there was too much noise in the industry experience data on insured lives to be used to measure insured MI results
  - Reviewed SOA general population socioeconomic decile work
    - Is there a decile that that can be used as a proxy for the life insurance population?
- Initial Considerations
  - Is there a new baseline level of MI post-pandemic?
  - Should the impact of COVID be included/excluded?  If excluded, method of exclusion?
  - How much do drug/opioid and smoking status impact the insurance population?
    - Drug/opioid issue (may be more important for key concentration of insured ages)
    - Smoker/nonsmoker differential

SOA Research INSTITUTE

# MI Recommendation - Fully Underwritten Business

## Update

- Peer review of MI Analysis Tool & Predictive Models completed
- Continue investigation of patterns in insured versus general population experience generated by MI analysis tool

# Contact Information

Marianne Purushotham, FSA, MAAA

Corporate Vice President, Research Data Services

LLGlobal/LIMRA

mpurushotham@limra.com

SOA Research
INSTITUTE

Agenda Item 6

Hear a Presentation on GOES Model Office Testing

(Materials Pending)

Agenda Item 7

Consider Exposure of APF 2024-11 Life

Principle-Based Reserves (PBR) Exemption

## 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:**
   Update the Life PBR Exemption as needed due to changes made to the annual statement blanks.

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:

   Valuation Manual Section II, Subsection 1.G

   January 1, 2025 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.)

   **Valuation Manual Section II, Subsection 1.G**

Exemption premium is determined as follows:

a. The amount reported in the prior calendar year life/health annual statement, Exhibit 1, Part 1, Column 2 ("Individual Life"), line 20.1; plus
b. The portion of the amount in the prior calendar year life/health annual statement, Exhibit 1, Part 1, Column 2 ("Individual Life"), line 20.2 assumed from unaffiliated companies; minus
c. Amounts included in either (a) or (b) that are associated with industrial policies, credit life policies, guaranteed issue insurance policies and/or preneed life insurance policies; minus
d. Amounts included in either (a) or (b) that represent transfers of reserves in force as of the effective date of a reinsurance assumed transaction; plus
e. Amounts of premium for individual life certificates issued under a group life certificate that meet the conditions defined in VM-20, Section 1.B, and that are not included in either (a) or (b).

**Deleted:** 3
**Deleted:** Ordinary
**Deleted:** Insurance
**Deleted:** 3
**Deleted:** Ordinary
**Deleted:** Insurance

> **Guidance Note:**
> Definitions of industrial life insurance, preneed, and guaranteed issue life insurance policy are in VM-01. The definition of credit life insurance is in Section II, Subsection 5.B.

**Deleted:** (i)

**Deleted:** (ii) For statements of exemption filed for calendar year 2022 and beyond, the amount in Subsection 2.e was reported in the prior calendar year life/health annual statement, VM-20 Reserve Supplement, Part 2, if applicable.¶

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

   This APF is to coordinate with Blanks updates that have been made. Specifically, in Exhibit 1, Part 1 there is now an "individual" column rather than an "ordinary" column and the separate industrial and credit life columns were removed, by BWG 2022-14.

**EXHIBIT 1 – PART 1 – PREMIUMS AND ANNUITY CONSIDERATIONS FOR LIFE AND ACCIDENT AND HEALTH CONTRACTS**

| | 1 | ~~Insurance~~ | | | | | | | | | | ~~12~~ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2 | ~~Ordinary~~ | | 5 | ~~Group~~ | | ~~Accident and Health~~ | | | ~~11~~ | |
| | | | 3 | 4 | | 6 | 7 | 8 | ~~9~~ | ~~10~~ | | |
| | Total | ~~Industrial~~Individual Life | Group Life ~~Insurance~~ | Individual Annuities | ~~Credit Life (Group and Individual)~~ Group Annuities | ~~Life Insurance~~ Accident & Health | ~~Annuities~~ Fraternal | ~~Group~~ Other Lines of Business | ~~Credit (Group and Individual)~~ | ~~Other~~ | ~~Aggregate of All Other Lines of Business~~ | ~~Fraternal (Fraternal Benefit Societies Only)~~ |
| **FIRST YEAR (other than single)** | | | | | | | | | | | | |
| 1. Uncollected | | | | | | | | | | | | |
| 2. Deferred and accrued | | | | | | | | | | | | |
| 3. Deferred, accrued and uncollected: | | | | | | | | | | | | |
| 3.1 Direct | | | | | | | | | | | | |
| 3.2 Reinsurance assumed | | | | | | | | | | | | |
| 3.3 Reinsurance ceded | | | | | | | | | | | | |
| 3.4 Net (Line 1 + Line 2) | | | | | | | | | | | | |
| 4. Advance | | | | | | | | | | | | |
| 5. Line 3.4 - Line 4 | | | | | | | | | | | | |
| 6. Collected during year: | | | | | | | | | | | | |
| 6.1 Direct | | | | | | | | | | | | |
| 6.2 Reinsurance assumed | | | | | | | | | | | | |
| 6.3 Reinsurance ceded | | | | | | | | | | | | |
| 6.4 Net | | | | | | | | | | | | |
| 7. Line 5 + Line 6.4 | | | | | | | | | | | | |
| 8. Prior year (uncollected + deferred and accrued - advance) | | | | | | | | | | | | |
| 9. First year premiums and considerations: | | | | | | | | | | | | |
| 9.1 Direct | | | | | | | | | | | | |
| 9.2 Reinsurance assumed | | | | | | | | | | | | |
| 9.3 Reinsurance ceded | | | | | | | | | | | | |
| 9.4 Net (Line 7 - Line 8) | | | | | | | | | | | | |
| **SINGLE** | | | | | | | | | | | | |
| 10. Single premiums and considerations: | | | | | | | | | | | | |
| 10.1 Direct | | | | | | | | | | | | |
| 10.2 Reinsurance assumed | | | | | | | | | | | | |
| 10.3 Reinsurance ceded | | | | | | | | | | | | |
| 10.4 Net | | | | | | | | | | | | |
| **RENEWAL** | | | | | | | | | | | | |
| 11. Uncollected | | | | | | | | | | | | |
| 12. Deferred and accrued | | | | | | | | | | | | |
| 13. Deferred, accrued and uncollected: | | | | | | | | | | | | |
| 13.1 Direct | | | | | | | | | | | | |
| 13.2 Reinsurance assumed | | | | | | | | | | | | |
| 13.3 Reinsurance ceded | | | | | | | | | | | | |
| 13.4 Net (Line 11 + Line 12) | | | | | | | | | | | | |
| 14. Advance | | | | | | | | | | | | |
| 15. Line 13.4 - Line 14 | | | | | | | | | | | | |
| 16. Collected during year: | | | | | | | | | | | | |
| 16.1 Direct | | | | | | | | | | | | |
| 16.2 Reinsurance assumed | | | | | | | | | | | | |
| 16.3 Reinsurance ceded | | | | | | | | | | | | |
| 16.4 Net | | | | | | | | | | | | |
| 17. Line 15 + Line 16.4 | | | | | | | | | | | | |
| 18. Prior year (uncollected + deferred and accrued - advance) | | | | | | | | | | | | |
| 19. Renewal premiums and considerations: | | | | | | | | | | | | |
| 19.1 Direct | | | | | | | | | | | | |
| 19.2 Reinsurance assumed | | | | | | | | | | | | |
| 19.3 Reinsurance ceded | | | | | | | | | | | | |
| 19.4 Net (Line 17 - Line 18) | | | | | | | | | | | | |
| **TOTAL** | | | | | | | | | | | | |
| 20. Total premiums and annuity considerations: | | | | | | | | | | | | |
| 20.1 Direct | | | | | | | | | | | | |
| 20.2 Reinsurance assumed | | | | | | | | | | | | |
| 20.3 Reinsurance ceded | | | | | | | | | | | | |
| 20.4 Net (Lines 9.4 + 10.4 + 19.4) | | | | | | | | | | | | |

| **Dates:** Received | Reviewed by Staff | Distributed | Considered |
|---|---|---|---|
| 7/23/2024 | A.F. | | |
| **Notes:** APF 2024-11 | | | |

Agenda Item 8

Hear Presentation on the Reflection of Negative Interest Maintenance Reserves (IMRs) in PBR and Asset Adequacy Testing (AAT)

# Negative Interest Maintenance Reserve (IMR) Reflection in Principle-Based Reserving (PBR) and Asset Adequacy Testing (AAT)

Rachel Hemphill, Ph.D., FSA, FCAS, MAAA
PBR Chief Actuary, Texas Department of Insurance (TDI)
Chair: NAIC Life Actuarial (A) Task Force (LATF)

1

# TDI | LATF Past Guidance on Negative IMR

On 10/31/22, the ACLI raised a concern that there was a "double hit" with negative IMR not being admitted but interpreted by companies as needing to be reflected for PBR and AAT/cashflow testing (CFT).

On 12/15/22, LATF approved guidance that negative IMR that is not admitted does not need to be allocated for PBR or AAT.

On 8/31/23, LATF adopted APF 2023-08 clarifying the allocation of negative Interest Maintenance Reserve (IMR) as well as IMR Guidance for year-end 2023 and 2024 and an optional IMR Template.



# TDI | Valuation Manual Changes

APF 2023-08 clarified explicitly that any IMR that is not admitted should not be reflected in PBR or AAT/CFT.

Admitted negative IMR would continue to be reflected.

For AAT/CFT, the edits in VM-30 Section 3.B.5 were:

- *5. An appropriate allocation of assets in the amount of the IMR, whether positive or negative, shall be used in any asset adequacy analysis. In performing the allocation, any portion of the total company IMR balance that is not admitted under statutory accounting procedures shall first be removed.*

3

# TDI | LATF Guidance

## IMR Guidance

LATF’s IMR Guidance clarified that this same treatment should apply for year-end 2023 and 2024, based on the current requirements for an “appropriate” and “reasonable” allocation.

# TDI | IMR Reporting Template

Optional IMR Template.

**IMR and Relevant Annual Statement Reporting**

| 1<br>General Account IMR | 2<br>Separate Account IMR | 3<br>RBC | 4<br>General Account Capital and Surplus | 5<br>Admitted net negative (disallowed) IMR |
|---|---|---|---|---|
| | | | | |

| | | |
|---|---|---|
| **RBC Flag:** | Ok | |
| **Capital and Surplus Flag:** | Ok | |

**IMR and Relevant 9/30 Statement Reporting (to be completed if 9/30 data is used for AAT)**

| 1<br>General Account IMR | 2<br>Separate Account IMR | 3<br>RBC | 4<br>General Account Capital and Surplus | 5<br>Admitted net negative (disallowed) IMR |
|---|---|---|---|---|
| | | | | |

| | | |
|---|---|---|
| **RBC Flag:** | Ok | |
| **Capital and Surplus Flag:** | Ok | |

5

# TDI | IMR Reporting Template

Optional IMR Template.

**Reflection of IMR in Asset Adequacy Testing and Principle-Based Reserving**

| 1<br>Reporting Basis | 2<br>As of Quarter | 3<br>Amount of IMR Allocated | 4<br>Amount of admitted net negative (disallowed) IMR Allocated | 5<br>IMR Allocation Basis | 6<br>Included in Starting Assets? (Y/N) | 7<br>Does the allocated admitted net negative (disallowed) IMR included in the starting assets generate future income? (Y/N) |
|---|---|---|---|---|---|---|
| VM-30 (AAT) | | | | | | |
| VM-21 | | | | | | |
| VM-20: Term Reserving Category | | | | | | |
| VM-20: ULSG Reserving Category | | | | | | |
| VM-20: All Other Reserving Category | | | | | | |



# TDI | Reporting Issues seen for Year-End 2024

1. Negative IMR is Admitted, but 0 IMR is reported in the Actuarial Opinion.
2. Negative IMR is Admitted, but IMR is reported as a positive amount in the Actuarial Opinion.
3. Negative IMR is Admitted, but a substantially smaller magnitude IMR is reported as reflected in the Actuarial Opinion.

# TDI | Concern and Recommendations

- Concern: Negative IMR is admitted, but overstated reserves (not appropriately adjusted to include the admitted negative IMR) may be used for CFT and PBR.

- Recommendation: Regulators may want to request a reconciliation of reported admitted negative IMR to the reported IMR reflected for PBR and CFT, and may use the IMR Template to do so, from domestic companies that have admitted negative IMR.
- Recommendation: Companies may want to proactively provide a reconciliation of reported admitted negative IMR to the reported IMR reflected for PBR and CFT, and may use the IMR Template.

8

TDI

# Questions?



Agenda Item 9

Hear an Update on Reviews of

Actuarial Guideline LIII

# Updates on Actuarial Guideline 53

Fred Andersen, FSA, MAAA

8/11/2024

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

8/11/2024

*AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.*



# Notice Regarding Confidentiality

AG 53 provides uniform guidance for the asset adequacy testing, and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements, and continue to remain confidential in nature.

# Data Limitations

- Asset information shown in the slides that follow rely on data submitted by companies in their AG 53 templates. The NAIC took steps to review the data for reasonableness. However, the accuracy and reliability of the results are ultimately dependent on the quality of participant submissions.
- Some of the submitted data was adjusted to make it useable and help ensure greater consistency of reporting across companies. For example: 1) units were changed from dollars to millions where necessary; 2) asset types were mapped to those listed in the standard AG 53 template for companies that substituted different asset descriptions; 3) aggregated initial asset summary templates were created for companies that provided templates by segment but not in total; 4) templates submitted as PDFs were converted to Excel.
- Some companies did not submit AG 53 templates or did not complete all of the AG 53 template tabs.



*AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.*

# Agenda

1. Review activities
2. Data summaries
   - Projected Allocations
   - Investments by Tranche
   - Payment in Kind
3. Other Updates



*AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.*

# Review Activities

- High assumed net yields continue to be a focus
  - Outreach between VAWG and domestic regulators is in progress

- Looking at a wider variety of issues compared to last year
  - Information submitted in response to the Guidance Document and
  - The more refined set of data submitted with the AG 53 templates **(focus for today)**

- Sections of reports addressing Reinsurance Collectability Risk are being reviewed

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/11/2024

*AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.*



# Projected Allocations – AG 53 template

## Projected Asset Allocation

| Asset Type | Year 5 | Year 10 | Year 20 | Year 30 |
|---|---|---|---|---|
| Treasuries and Agencies | 0% | 0% | 0% | 0% |
| Public Non-Callable, Non-Convertible Corporate Bonds[1] | 0% | 0% | 0% | 0% |
| Callable Bonds | 0% | 0% | 0% | 0% |
| Convertible Securities[2] | 0% | 0% | 0% | 0% |
| Floating Rate Corporate Notes | 0% | 0% | 0% | 0% |
| Municipal Bonds | 0% | 0% | 0% | 0% |
| Other Private Bonds | 0% | 0% | 0% | 0% |
| Non-Convertible Preferred Stock | 0% | 0% | 0% | 0% |
| Agency Mortgage Backed Securities | 0% | 0% | 0% | 0% |
| Non-Agency Commercial Mortgage Backed Securities | 0% | 0% | 0% | 0% |
| Non-Agency Residential Mortgage Backed Securities | 0% | 0% | 0% | 0% |
| Collateralized Loan Obligations | 0% | 0% | 0% | 0% |
| Other Asset Backed Securities | 0% | 0% | 0% | 0% |
| Equities or Equity-Like Instruments | 0% | 0% | 0% | 0% |
| Real Estate | 0% | 0% | 0% | 0% |
| Mortgage Loans | 0% | 0% | 0% | 0% |
| Schedule BA Assets - Equity-Like Instruments | 0% | 0% | 0% | 0% |
| Schedule BA Assets - Non-Equity-Like Instruments | 0% | 0% | 0% | 0% |
| Derivative Instruments | 0% | 0% | 0% | 0% |
| Other - Not Covered Above | 0% | 0% | 0% | 0% |
| **Total** | **0%** | **0%** | **0%** | **0%** |

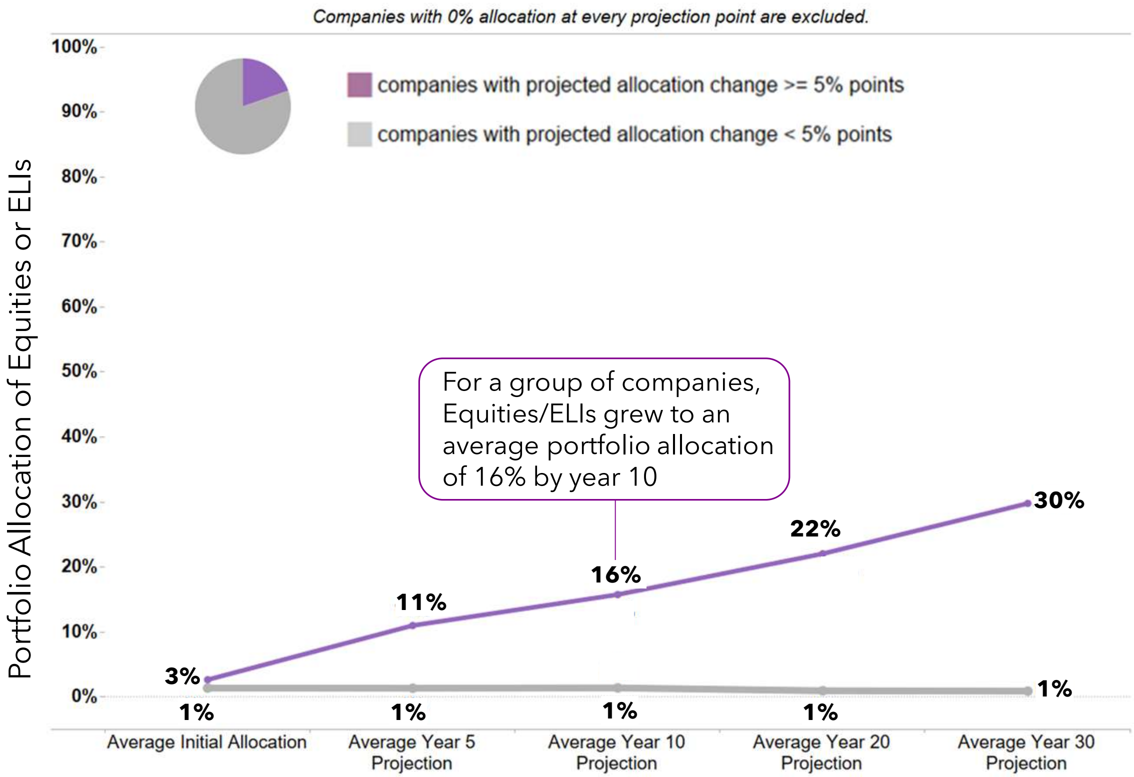
NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/11/2024

*AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.*

6

# Projected Allocations of Equities or Equity-Like Instruments (ELIs)




- ➢ Some companies showed an increasing allocation over time, but most did not

**20% of companies investing in Equities/ELIs** showed allocations rising by 5% or more from beginning to end

(i.e., allocation at projection year 30 minus initial allocation ≥ 5%)

- ➢ As a group, the average allocation changed from 3% to 30% over a 30-year projection

**Most (80%) of the companies with Equity/ELI investments** had a fairly low and steady allocation across the projection period

- ➢ The average allocation was 1% at each reported projection point

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

8/11/2024

*AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.*

7

# Issue re: projected allocations

- In some cases, there have been apparent inconsistencies between the projected allocation exhibit and the asset summary exhibit.
- We may pursue further explanation in these cases.

**Asset Summary for Asset Adequacy Testing**

| Asset Type | Amount[1] ($M) | % | P.H.N.Y. Amount ($M) | % | Affiliate[2] Amount ($M) | % | Reinvestment Strategy (%) |
|---|---|---|---|---|---|---|---|
| Treasuries and Agencies | 0.0 | 0% | 0 | 0% | 0 | 0% | 0% |
| Public Non-Callable, Non-Convertible Corporate Bonds[3] | 0.0 | 0% | 0 | 0% | 0 | 0% | 0% |
| Callable Bonds | 0.0 | 0% | 0 | 0% | 0 | 0% | 0% |
| Convertible Securities[4] | 0.0 | 0% | 0 | 0% | 0 | 0% | 0% |
| Floating Rate Corporate Notes | 0.0 | 0% | 0 | 0% | 0 | 0% | 0% |
| Municipal Bonds | 0.0 | 0% | 0 | 0% | 0 | 0% | 0% |
| Other Private Bonds | 0.0 | 0% | 0 | 0% | 0 | 0% | 0% |
| Non-Convertible Preferred Stock | 0.0 | 0% | 0 | 0% | 0 | 0% | 0% |
| Agency Mortgage Backed Securities | 0.0 | 0% | 0 | 0% | 0 | 0% | 0% |
| Non-Agency Commercial Mortgage Backed Securities | 0.0 | 0% | 0 | 0% | 0 | 0% | 0% |
| Non-Agency Residential Mortgage Backed Securities | 0.0 | 0% | 0 | 0% | 0 | 0% | 0% |
| Collateralized Loan Obligations | 0.0 | 0% | 0 | 0% | 0 | 0% | 0% |
| Other Asset Backed Securities | 0.0 | 0% | 0 | 0% | 0 | 0% | 0% |
| Equities or Equity-Like Instruments | 0.0 | 0% | 0 | 0% | 0 | 0% | 0% |

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/11/2024

*AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.*



# Tranche Ratings – AG 53 template

**Tranche Rating and Type for Non-Traditional Assets**

| Asset Type | CLO | Non-Agency RMBS | Non-Agency CMBS | [Material Other ABS #1] | [Material Other ABS #2] | All Other ABS Assets |
|---|---|---|---|---|---|---|
| Tranche Rating | | | | | | |
| AAA | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| AA | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| A | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| BBB | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| BB | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| B | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| CCC and Lower (Non-Residual) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Unrated (Non-Residual) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Residual | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| | | | | | | |
| Allocation across Type | | | | | | |
| Broadly Syndicated | 0.0% | N/A | N/A | N/A | N/A | N/A |
| Middle Market | 0.0% | N/A | N/A | N/A | N/A | N/A |
| | | | | | | |
| Payment In Kind (PIK) | | | | | | |
| Approximate Percentage of Total Portfolio with PIK Feature | 0.0% | | | | | |
| Approximate Percentage of Total Portfolio Currently in PIK Status | 0.0% | | | | | |

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/11/2024

*AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.*

9

# Tranche Ratings for Collateralized Loan Obligations (CLOs)

Count of Companies reporting x% of their CLOs in a particular tranche:

| | < 20%* | 20-39% | 40-59% | 60-79% | 80-100% |
|---|---|---|---|---|---|
| AAA | 39 | 38 | 24 | 13 | 9 |
| AA | 42 | 51 | 15 | 12 | 5 |
| A | 60 | 26 | 23 | < 5 | < 5 |
| BBB | 65 | 18 | 5 | < 5 | < 5 |
| BB | 50 | 5 | < 5 | < 5 | 0 |
| B | 29 | 0 | 0 | 0 | 0 |
| CCC and Lower^ | 14 | 0 | 0 | 0 | 0 |
| Unrated^ | < 5 | < 5 | 0 | 0 | 0 |
| Residual | 10 | < 5 | 0 | 0 | 0 |

* Excludes 0%
^ Non-Residual

- 39 companies reported that less than 20% of their CLOs are invested in AAA
- A small number of companies invest 100% of their CLOs in the AAA tranche
- Many companies have a small portion of their CLOs in BBB
- Most companies purchase CLOs across a mix of tranche ratings

➢ Many companies have CLOs in tranches that are below investment grade

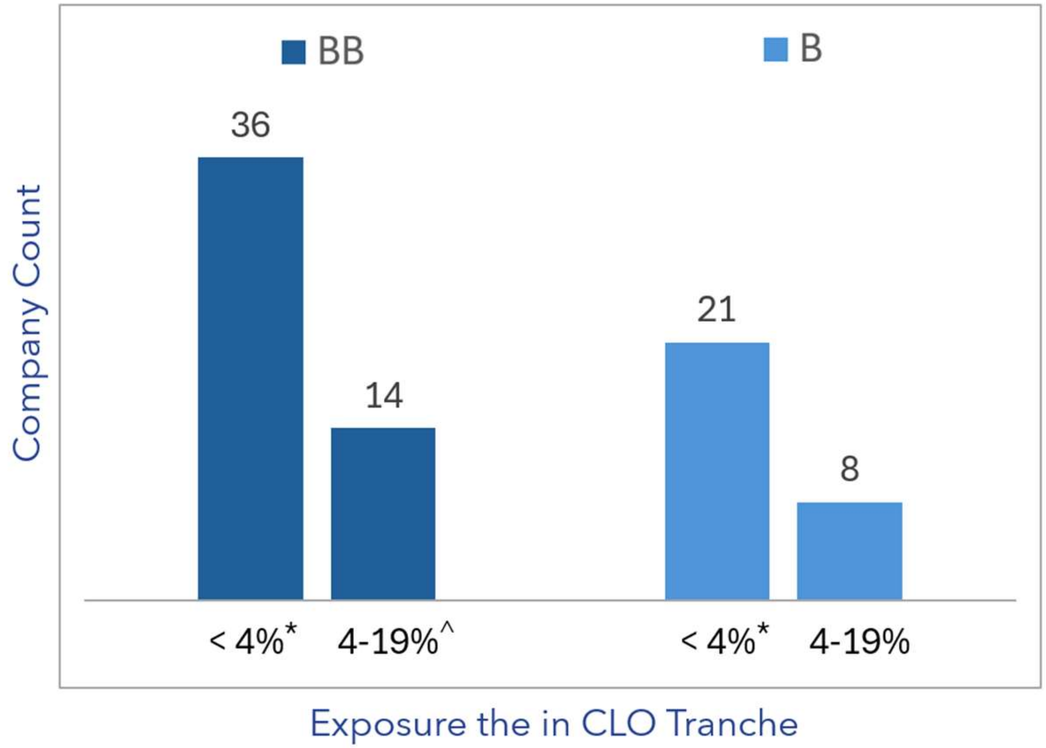
➢ The exposures in the below investment grade tranches tend to be small, with exceptions

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/11/2024

*AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.*

# Tranche Ratings for Collateralized Loan Obligations (CLOs)

More details for some tranches that are below investment grade:




* Excludes 0%
^ Some companies have more than 19% exposure in BB

*AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.*



# Payment in Kind (PIK) – AG 53 template

## Tranche Rating and Type for Non-Traditional Assets

| Asset Type | CLO | Non-Agency RMBS | Non-Agency CMBS | [Material Other ABS #1] | [Material Other ABS #2] | All Other ABS Assets |
|---|---|---|---|---|---|---|
| Tranche Rating | | | | | | |
| AAA | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| AA | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| A | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| BBB | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| BB | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| B | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| CCC and Lower (Non-Residual) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Unrated (Non-Residual) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Residual | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| | | | | | | |
| Allocation across Type | | | | | | |
| Broadly Syndicated | 0.0% | N/A | N/A | N/A | N/A | N/A |
| Middle Market | 0.0% | N/A | N/A | N/A | N/A | N/A |
| | | | | | | |
| Payment In Kind (PIK) | | | | | | |
| Approximate Percentage of Total Portfolio with PIK Feature | 0.0% | | | | | |
| Approximate Percentage of Total Portfolio Currently in PIK Status | 0.0% | | | | | |

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/11/2024

*AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.*

12

# Payment in Kind (PIK) – the basics

- An asset with a PIK feature could result in additional debt, equity or some other investment in lieu of cash payments for interest or dividends.
- The presence of a PIK feature in an asset indicates some level of distress or high risk.
- Benefits and risks for the issuer and investor can include:

| | Issuer | Investor (insurance company) |
|---|---|---|
| Benefit | Conservation of cash, potentially for periods of growth or liquidity constraint | Higher rate of return |
| Risk | • Rapid increase in debt burden<br>• Diluted equity ownership<br>• Reduced credit rating if the PIK signals financial distress | • Loan may be unsecured and subordinate to the issuer's other debt<br>• Delayed, inconsistent, reduced or no cash interest payments<br>• Large loss from default due to compounded PIK interest added to the debt burden |

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/11/2024

*AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.*



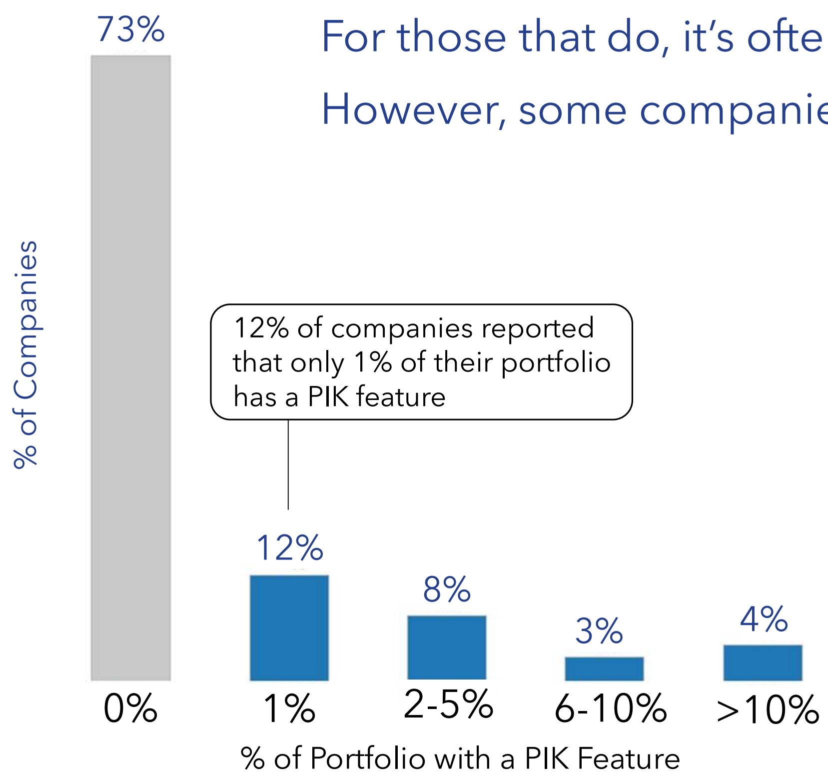
 

# Payment in Kind (PIK) – AG 53 data summary

➢ Most companies do not have investments with a PIK Feature.

For those that do, it's often a small part of the portfolio.

However, some companies have a significant amount of PIK investments.




Many of these exposures are currently in PIK status

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

8/11/2024

*AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.*

14

# Reinsurance Collectability Update

- VAWG reviewed targeted companies for YE 2022
- For YE 2023, review was performed on those companies, looking for improvements
- General findings



*AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.*

# Potential Guidance Document additions

- Explanation of any projected allocation deviations from asset summary information
- High-level explanation of process in ensuring alignment of AG 53 assumptions with VM-30 assumptions
- Emphasis that simplifications should not lead to more favorable results
  - e.g., assuming reinvestment in all public, non-callable corporates should not include excessively high assumed net yields



*AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.*



Agenda Item 10

Consider Exposure of the AAT for

Reinsurance Actuarial Guideline

# Reinsurance Asset Adequacy Testing (AAT)

# Life Actuarial Task Force

Fred Andersen, FSA, MAAA

8/11/2024

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

# Reinsurance AAT – Today's Discussion

- Move towards developing consensus on concepts
- Walk through strawman Actuarial Guideline (AG) wording

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/11/2024

# Status of Considerations for Consensus

1. Need for reserve adequacy review beyond or as part of collectability review
2. Materiality threshold for no additional disclosure, attribution analysis, or cash-flow testing
3. More rigorous and/or more frequent analysis to the extent there are significant risks
4. Analysis considerations
5. Aggregation considerations
6. Attribution analysis details
7. Use of information already available
8. Timing of development and implementation of requirements



# 1. Need for reserve adequacy review

- Beyond or as part of collectability review

- Review involves not just collectability (a.k.a., credit or creditworthiness) related to the reinsurer
- Collectability is only one aspect of ASOP 22, para. 3.1.3
- Rating agencies are likely not analyzing reserve assumptions
- Credit ratings are less meaningful if reserving levels are not adequate



# 1. Need for reserve adequacy review – Initial Recommendation

- LATF participants have communicated the need for US regulators to have information on reasons for reserve decreases due to reinsurance
- Different follow-up options by the domestic regulator may be appropriate, based on their knowledge of the cedant and the transaction
- Proceed with developing an AG on reinsurance AAT



## 2. Materiality threshold

- For no additional disclosure, attribution analysis, or cash-flow testing

- Size and impact on company financials will be considered
- Perhaps more “generous” the first year of the AG
  - re: allowing company judgment or having a lower bar to limit analysis and work
- Schedule S, Part 3 can be used to aid in determining materiality
  - Type of reinsurance, type of product
  - Amount in force, reserve credit, modco reserve, funds withheld

# 2. Materiality threshold – Initial Recommendation

- A mix of size / impact on financials and safeguards can determine if and how analysis is performed
- Further discussion on whether CFT should be expected for very large blocks regardless of safeguards such as trusts or funds withheld

# 3. Risk-based rigor and frequency of analysis

- More rigorous and/or more frequent analysis are applied to the extent there are significant risks, such as
  - VM-30 actuarial memorandum not provided by assuming company to a US regulator
  - Significant reserve decrease due to reinsurance or use of non-primary security to back reserves
  - Collectability risk associated with the reinsurer is significant
  - Perhaps consideration of affiliated status or protections such as trusts or funds withheld
- Generally targeting optimistic judgment on key assumptions or more favorable assumptions where there is not relevant, credible data on key factors
  - Where the optimistic or favorable assumptions lead to a lower level of reserves

# 3. Risk-based rigor and frequency of analysis – Initial Recommendation

- Continue coordinating with interested parties on determining which risks are appropriate to consider when limiting analysis to be performed
- Discuss whether attribution analysis is appropriate as standalone analysis for “moderate risk” cases?



# 4. Analysis considerations

- Rigor
  - Criteria for when cash-flow testing (CFT) is required
  - Attribution analysis in most material cases
    - Where there are significant differences between US statutory reserves and amounts being held by reinsurer without primary security collateral being held for the difference
  - Other types of analysis?
  - Nothing in this AG prevents a state from doing what it's always been allowed to do, requesting CFT where appropriate

# 4. Analysis considerations, cont.

- Appointed Actuary should make a statement (perhaps wherever attribution analysis is required):
  - The statement would be on the total reserve amount held being a reasonable estimate of liabilities under moderately adverse conditions
  - With or without consideration of aggregation?
- Frequency
  - Higher risk: annual
  - Lower risk: one time + monitoring
  - How would monitoring potential status changes occur?



# 4. Analysis considerations – Initial Recommendation

- Continue coordinating with interested parties to:
  - Work out the appropriateness, frequency, and details regarding cash-flow testing
  - Work out the non-primary security backing reserves issue and the relevance to attribution analysis
  - Determine whether the Appointed Actuary should be required to provide a statement on the reasonableness of the Total Reserve to cover moderately adverse conditions



# 5. Aggregation considerations

- Narrative explanation the first year where stand-alone block has deficient reserves due to combining with overly adequate blocks through aggregation.
- How to gain confidence that the other block is actually overly adequate?
- Criteria for use of aggregation
  - Not across counterparties?
  - What if the "overly adequate" block leaves?
- Consider ASOP 22 for guidance
- When do regulators want stand-alone adequacy versus combined?



# 5. Aggregation considerations – Initial Recommendation

- For sizeable treaties within one counterparty (assuming company), consider combining the cash flows for the purposes of analysis
- Are there treaties of such size and impact that standalone analysis is warranted?
- Likely not allow aggregation of analysis across counterparties
    - But discussions will continue to see if there's some justification

# 6. Attribution analysis details

- Start with Pre-Reinsurance Reserve (US stat for life, known as CARVM for annuities)
- Reserve adjustment from US stat due to assumption differences from baseline:
  - Policyholder behavior assumptions
  - Mortality / longevity assumptions
  - Investment return assumptions versus US stat discount rate



# 6. Attribution analysis details, cont. (2)

- Other reserve adjustments due to
  - Removal of cash surrender value floor
  - Market value / book value difference due to change in interest rates
  - Moderately adverse to less adverse (or best estimate) conversion
  - Other (other changes to fair value, future cash flows)

- Flexibility for YE 2025 and perhaps beyond
  - Use the "template" or provide similar information explaining reasons for reserve decrease

# 6. Attribution analysis details, cont. (3)

- Result is all of the attribution going from the pre-reinsurance US stat reserve to the post-reinsurance reserve
  - Held by the assuming company or in combination between the assuming company and ceding company
- Commentary would be required regarding the attribution analysis, including re:
  - Total Asset Requirement (TAR) differences between jurisdictions,
  - Any portion of the reserve not backed by primary security
    - Following the definition in Section 4.D. of AG 48
  - Any differences in reflection of expenses, and
  - Any aggregation impact



# 6. Attribution analysis details – Initial Recommendation

- Allow some flexibility for a company to provide information similar to what would be in the template
- Continue working with interested parties to develop a template that "works" in a high percentage of cases

# 7. Use of information already available

- Reinsurance spreadsheet
    - See Reinsurance Task Force: https://content.naic.org/sites/default/files/committee_related_documents/NAIC%2520-%2520Reinsurance%2520Comparison%2520Worksheet%2520%25206-5-2023_1.xlsx
    - Review, use, coordinate, avoid duplication
    - Before and after reinsurance:
        - Amount of assets
        - Amount of reserves
        - TAR
    - Attribution analysis and CFT would get at the drivers of the reduction in reserves and resulting primary security assets
    - Is this available only for a subset of agreements?

# 7. Use of information already available, cont.

- ASOP 11 / AG 53 responses for YE 2023
- Coordinating with other jurisdictions, where applicable
  - Would want to ensure insight into, e.g., assumptions, is available

# 7. Use of information already available – Initial Recommendation

- Continue to study the relevance, particularly regarding assumptions, of other information as an appropriate supplement or substitute for attribution analysis or cash-flow testing

# 8. Potential Plan: Timing of Inquiries and Requirements

- Including initial recommendation:
  - 2024: perhaps limited survey / inquiry which can act as a field test
  - YE 2025: new AG effective
    - For treaties effective 1/1/2021 and later?
    - Some flexibility
      - More reliance on company judgment for determining level of rigor of analysis, including materiality (but within criteria established in the AG)
  - YE 2026: The AG could mention more rigor or prescription for year 2



# 9. Other issues

- TBD



# Draft Skeleton / Strawman Actuarial Guideline

- Provides an idea of how the guideline will look after LATF decides on conceptual issues
- Many iterations, exposures, and public discussion opportunities are anticipated into 2024

Fred Andersen, Minnesota

Some questions to focus on for the strawman draft reinsurance AAT Actuarial Guideline, below:

a) Should the scope of the Guideline be narrow (only including treaties of certain size and impact) or broad and then establish objective and subjective criteria for CFT, less rigorous analysis, or being exempted from analysis within the body?

b) Should at least one-time CFT automatically apply for <u>all</u> of these cases:

- > $5 B reserve credit
- > $1 B & > $2% ceding company gross reserves or $100 M & 10% or $10 M & 20%

Or perhaps not require CFT for large, impactful treaties if certain safeguards are in place?

c) Do we envision attribution analysis as being an alternative to CFT in moderate risk cases or only as being a supplement to other analysis?

d) Does GPV (modeling liabilities but not assets except through a discount rate) have a place on the analysis spectrum even though the focus of the guideline is on asset-intensive business?

e) Is there another metric besides “Primary Security” that can provide comfort that appropriately stable assets are supporting reserves?

f) Is it important to analyze risks associated with actual assets supporting reserves if the company is not reliant on aggressive asset returns to support reserves?

g) Should these requirements not apply to reinsurance treaties established prior to a certain date? [Looking at individual treaties, setting that at 2020 or 2021 may leave out a few substantial treaties of interest. Should this mean including more years in the base scope or having a narrower base scope while adding certain treaties in a supplemental scope?]

---

**AG ReAAT – Straw Man Draft 1**

**Background**

The NAIC Valuation Manual (VM-30) contains actuarial opinion and supporting actuarial memorandum requirements, including requirements for asset adequacy analysis.

State insurance regulators have identified the need to better understand the amount of reserves and type of assets supporting long duration insurance business that relies substantially on asset returns. In particular, there is risk that domestic life insurers may enter into reinsurance transactions that materially lower the amount of reserves and thereby facilitate releases of reserves that prejudice the interests of their policyholders. The purpose of this referral is to propose enhancements to reserve adequacy requirements for life insurance companies by requiring that asset adequacy testing (AAA) use a cash flow testing methodology that evaluates ceded reinsurance as an integral component of asset-intensive business.

This Guideline establishes additional safeguards within the domestic cedent to ensure that the assets supporting reserves continue to be adequate based on moderately adverse conditions.

**Text**

1. Effective date

   This Guideline shall be effective for asset adequacy analysis of the reserves reported in the December 31, 2025, Annual Statement and for the asset adequacy analysis of the reserves reported in all subsequent Annual Statements.

   Guidance Note: It is anticipated that the requirements contained in this Guideline will be incorporated into VM-30 at a future date, effective for a future valuation year. Requirements in the Guideline will cease to apply to annual statutory financial statements when the corresponding or replacement VM-30 requirements become effective.

2. Scope

   **OPTION 1**: Narrow scope, some analysis expected for all treaties in the scope

   This Guideline shall apply to all life insurers with:

   A. Reinsurance ceded to entities that are not required to submit a VM-30 memorandum to US state regulators in treaties established 1/1/2016 or later that meet any of the criteria determined <u>by counterparty</u> in subsections (1) through (4) below:

      (1) In excess of $5 billion of reserve credit or funds withheld or modified coinsurance reserve

(2) Combined reserve credit, funds withheld, and modified coinsurance reserve in excess of:

(a) $1 billion and

(b) 2% of ceding company gross Exhibit 5 gross life insurance plus gross annuity reserves

(3) Combined reserve credit, funds withheld, and modified coinsurance reserve in excess of:

(a) $100 million and

(b) 10% of ceding company gross Exhibit 5 gross life insurance plus gross annuity reserves

(4) Combined reserve credit, funds withheld, and modified coinsurance reserve in excess of:

(a) $10 million and

(b) 20% of ceding company gross Exhibit 5 gross life insurance plus gross annuity reserves

B. Reinsurance ceded to entities, regardless of treaty establishment date, that results in significant reinsurance collectability risk.

(1) For year-end 2025, significant reinsurance collectability risk is determined according to the judgment of the ceding company's Appointed Actuary

(2) For year-end 2026, [placeholder for more objective guidance?]

**OPTION 2**: Broader scope for the AG, details on whether analysis is expected is contained in the Analysis sections

This Guideline shall apply to all life insurers with combined reserve credit, funds withheld, and modified coinsurance reserve in excess of: $10 million or 20% of ceding company gross Exhibit 5 gross life insurance plus gross annuity reserves.

3. Definitions

A. Attribution Analysis – A step-by-step estimate of the proportion of reserve decrease from the pre-reinsurance U.S statutory reserve to Total Reserve attributable to factors such as differences in individual key assumptions.

B. Deficient Block – When a block of business shows negative present value of ending surplus in cash-flow testing scenarios using reasonable assumptions under moderately adverse conditions such that additional reserves would be needed in the absence of aggregation.

C. Pre-reinsurance Reserve – The U.S. statutory reserve that would be held by the ceding company for the business reinsured in the absence of the reinsurance transaction.

D. Primary Security – [As defined in Section 4.D. of Actuarial Guideline 48] {or replace with another term to describe a stable asset supporting reserves}

E. Reserve Decrease – If the Total Reserve is lower than the Pre-reinsurance Reserve, the difference between the two.

F. Sufficient Block – When a block of business shows positive present value of ending surplus in cash-flow testing scenarios using reasonable assumptions under moderately adverse conditions.

G. Total Reserve – The reserve held by the ceding company plus the reserve held by the assuming company minus the amount of reserves held by the assuming company supported with assets other than Primary Security.

Other definitions?

4. Risk Identification for Purposes of Establishing Analysis and Documentation Expectations

A. General guidance - The higher the risk, the more rigorous and frequent the analysis and documentation that should be performed by the ceding company's Appointed Actuary.

B. Relevant risks – For the purpose of determining the amount of rigor and frequency of analysis and documentation, relevant risks include one or more of the following:

(1) A VM-30 actuarial memorandum not being provided by the assuming company to a U.S. regulator.

(2) A significant Reserve Decrease in relation to the Pre-reinsurance Reserve.

(3) A significant use of non-Primary Security to support reserves.

*{Is there another metric besides "Primary Security" that can provide comfort that appropriately stable assets are supporting reserves?}*

(4) Significant collectability risk associated with the reinsurer, for reasons including:

(a) Rating of counterparty

(b) Capital position and trend of capital position

(c) Regulatory actions against counterparty

(d) Liquidity ratios

(e) Late payments on the agreement

(f) Decline in quality of invested assets

(5) Any potential risks associated with affiliated transactions should be discussed and considered.

C. Risk mitigation - Any potential risks or risk mitigants associated with protections such as trusts or funds withheld may be discussed and considered.

D. Risk identification for this purpose may involve reinsurance transactions within or outside the U.S.

5. Analysis and Documentation Expectations in Light of Risks

A. Generally, cash flow testing the Total Reserve is most appropriate when there is higher risk, and less rigorous analysis may be appropriate if there is lower risk.

{In what types of cases should CFT be mandatory? Should safeguards such as trusts and funds withheld be considered as a reason not to perform CFT even for the largest, most impactful treaties?}

B. Examples of less rigorous analysis include:

(1) Gross premium valuation or other asset adequacy analysis techniques described in Actuarial Standard of Practice #22

*{Is there an example of a type of case where GPV would be expected instead of CFT or attribution analysis if the focus of the AG is on asset-intensive business?}*

(2) Attribution analysis

*{Are the instances of "moderate risk" where attribution analysis could be the only form of analysis performed?}*

C. Some aggregation may be allowed between treaties for a single counterparty subject to the considerations in Section 7.

D. The domestic commissioner continues to have the option to require cash flow testing for individual treaties or counterparties, as they may deem necessary to understand and evaluate risk.

E. Where information on cash flows or any aspect of the analysis is not available, the appointed actuary may use simplifications, approximations, and modeling efficiency techniques if the appointed actuary can demonstrate that the use of such techniques does not make the analysis results more favorable.

6. Attribution Analysis

A. To perform an Attribution Analysis, for each relevant treaty, start with the Pre-reinsurance Reserve and document adjustments from that reserve to get to the Total Reserve.

(1) Adjustments may include the following:

(a) Differences in key assumptions

(i) Policyholder behavior assumptions

(ii) Mortality or longevity assumptions

(iii) Investment return assumptions versus US statutory discount rates

*{Is it important to analyze investment risks if the company is not reliant on aggressive asset return assumptions?}*

(iv) Other key assumptions, e.g., taxes

(b) Other reserve adjustments due to:

(i) Removal of cash surrender value floor

(ii) Market value / book value difference due to change in interest rates

(iii) Moderately adverse to less adverse (or best estimate) conversion

(iv) Other, including other changes to fair value or future cash flows

(2) Please comment on the order of the Attribution Analysis adjustments, where a different order could significantly change the impact of an adjustment.

B. Use the template or provide similar information in a user-friendly format explaining reasons for any reserve decrease.

C. It may be helpful to perform attribution analysis first between the Pre-reinsurance Reserve and another basis utilized by the cedant (e.g., the cedant's economic basis for the portion of the block ceded) and then from that basis to the Total Reserve.

(1) Please ensure comparison of dollar amounts of different reserves reflect the combined reserve held by the ceding and assuming companies.

D. Provide a narrative explanation, if necessary, to accompany the numbers provided in the attribution analysis template or similar format.

7. Aggregation Considerations

A. Aggregation through subsidy of a Deficient Block by a Sufficient Block should only apply within a counterparty.

*{Are there cases where aggregation within a counterparty is inappropriate?}*

B. Provide an explanation if additional asset adequacy analysis reserves are not posted related to a Deficient Block, where the reason is aggregation with a Sufficient Block.

C. Where applicable, explain the stability and reliability of a Sufficient Block when it is being used to subsidize a Deficient Block.

8. Documentation

A. If cash-flow testing is performed, present New York 7 results and key assumptions, along with other results the company selects to disclose.

B. If Attribution Analysis is performed, present the results in the template or in a user-friendly form providing similar information as in the template.

C. If performing other analysis, present results as appropriate.

D. Provide any narrative explanation to accompany the numerical results, including support for decisions to hold or not hold additional asset adequacy analysis reserves.

Agenda Item 11

Hear an Update on SOA Research and

Education

SOA Research INSTITUTE

# SOCIETY OF ACTUARIES RESEARCH UPDATE TO LATF

August 12, 2024

Dale Hall, FSA, MAAA, CERA
Managing Director of Research

# Presentation Disclaimer

*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.*

SOA Research INSTITUTE

# 2015-22 Fixed Rate Deferred Surrender Study

- Study was published in June 2024
- This study was released under Experience Studies Pro, the partnership between the SOA Research Institute and LIMRA
- For access to full report and detailed study results in Tableau, companies must purchase the Standard Data Package (SDP)*
- A short report with high-level insights is available to the public

*Note that we are working with state regulators to give them access to ES Pro studies; those who want access must sign a confidentiality agreement.

SOA Research INSTITUTE

# 2015-22 Fixed Rate Deferred Surrender Study

- High-level summary:
  - Observation years studied: 2015-2022
  - Exposure by contract count: 13.4 million
  - Exposure by contract amount: $1.0 trillion
  - Number of surrenders: 900,000
  - Number of companies: 23

- Last study on this type of contract owner behavior was published in 2006
- This experience has been used to help develop the exposed Fixed Rate annuity surrender assumptions for VM-22 field test

# 2015-22 Fixed Rate Deferred Surrender Study

- Surrender experience was analyzed by:
  - Contract owner characteristics:
    - Attained age
    - Sex
    - Contract face amount
    - Market type
    - Issue year
    - Contract year
  - Product characteristics:
    - Current surrender charge
    - Years to surrender charge expiry
    - Guaranteed minimum credited rate
    - Current credited rate
    - MVA feature
    - Rate guarantee period
    - Surrender charge period

SOA Research INSTITUTE

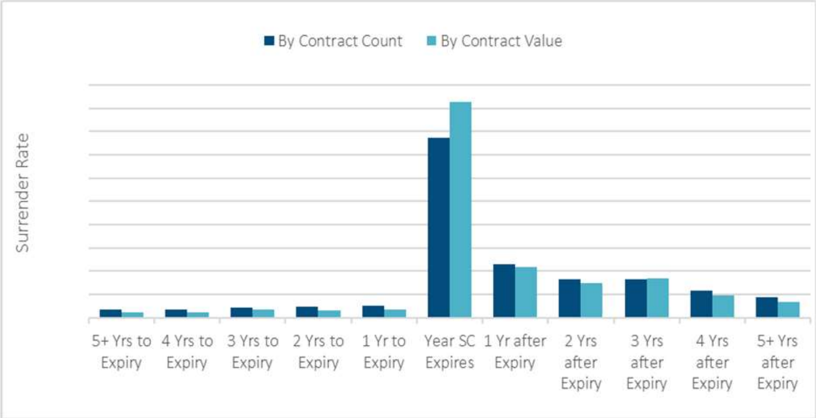
5

# 2015-22 Fixed Rate Deferred Surrender Study

- Years to surrender charge expiry is a main driver of surrender experience

- Observed even more elevated surrenders in recent calendar years, when interest rates were higher



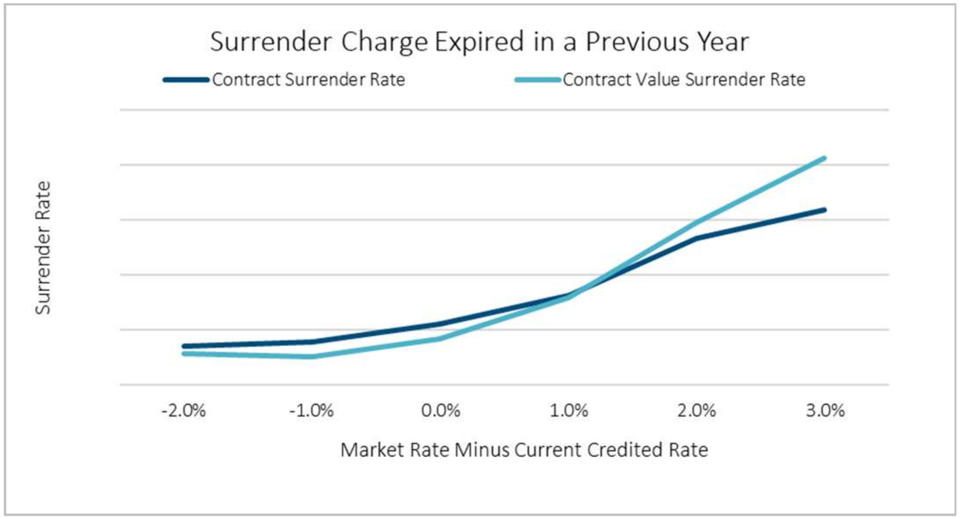




# 2015-22 Fixed Rate Deferred Surrender Study

- New analysis with this study examined surrender experience by relationship of market interest rate to current credited interest rate
    - Analysis showed increase in surrender rate as excess of market rate over current rate increased
    - Relationship especially defined in years after surrender charge has expired
    - Market rate by calendar year defined as avg daily 7-year Treasury rate + AA spread




SOA Research INSTITUTE



# 2015-22 Fixed Rate Deferred Surrender Study

- The completed study and Tableau dashboard will allow purchasing companies to:
  - View industry-level results
  - Compare their own experience to the industry
  - Compare their own experience to the results for a select group of peer companies
- Company confidentiality is protected via Tableau's suppression capabilities
  - If a single company has too much weight in a results cell, it will be suppressed
  - If a minimum number of companies do not have exposure in a results cell, it will be suppressed

SOA Research INSTITUTE



# Available on SOA website

https://www.soa.org/resources/experience-studies/2024/15-22-frds/



# 2015-2021 Universal Life Premium Persistency Study

- Study was published in July 2024
- This is the latest study released under Experience Studies Pro, the partnership between the SOA Research Institute and LIMRA
- For access to full report and detailed study results in Tableau, companies must purchase the Standard Data Package (SDP)*
- A short report with high-level insights is available to the public

SOA Research INSTITUTE

*Note that we are working with state regulators to give them access to ES Pro studies; those who want access must sign a confidentiality agreement.



# 2015-2021 Universal Life Premium Persistency Study

- High-level summary:
  - Observation years studied: 2015-2021
  - Exposure by policy count: 11.9 million
  - Exposure by policy face amount: $4.0 trillion
  - Collected premium studied: $76.6 million
  - Number of companies: 14
- Study is the second in a series of UL policyholder behavior studies
  - The first study was a UL lapse/surrender study and was published in November 2023
  - The premium persistency study includes experience data for 14 companies, while the lapse/surrender study had experience data for 24 companies
    - Not all companies that submitted VM-51 format data for the lapse study were able to provide collected premium information for the premium persistency study

SOA Research INSTITUTE

# 2015-2021 Universal Life Premium Persistency Study

- Premium persistency experience was analyzed by the following breakouts:
  - Observation year
  - Policy year
  - Product focus:
    - Lifetime guarantee products
    - Current assumption products
    - Cash accumulation products
  - Product type:
    - IUL, IULSG, Fixed UL, ULSG, VUL, VULSG
  - Attained age and issue age
  - Policy face amount band

SOA Research INSTITUTE



# 2015-2021 Universal Life Premium Persistency Study

- Premium persistency analysis was performed on three different bases:

1. Ratio of ‘premium collected’ to ‘planned premium’
2. Ratio of ‘premium collected up to planned’ to ‘planned premium’
    - This caps the premium paid in the current year to planned premium and eliminates the impact of large ‘dump in’ premium deposits
3. Ratio of ‘premium collected’ to ‘prior year premium collected’

SOA Research INSTITUTE

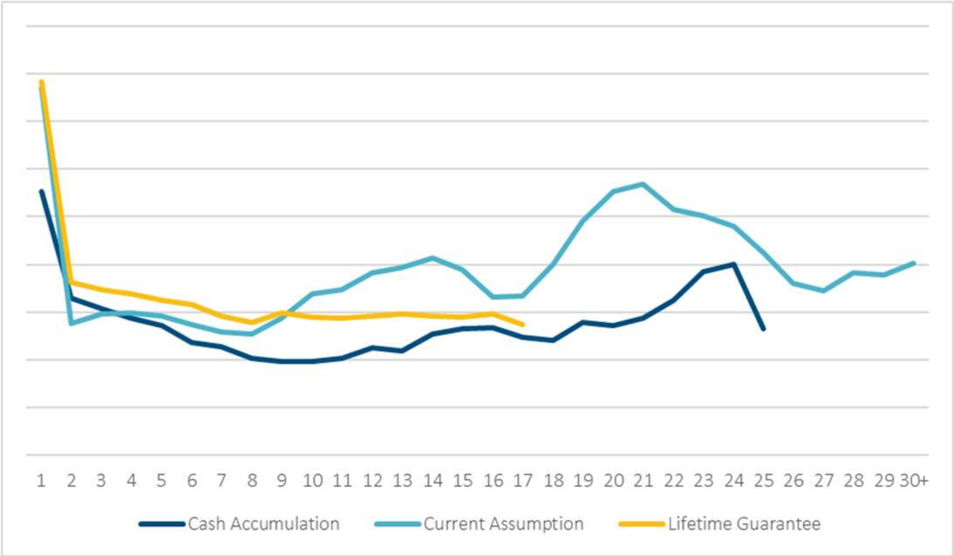


# 2015-2021 Universal Life Premium Persistency Study

Example of premium persistency analysis by product focus and policy year:

- Premium collected to planned premium ratio
- Cash accumulation products generally have the lowest ratio
- Current assumption products have highest ratio for policy years 10+
- Lifetime guarantee products have consistent premium persistency ratios over time; these are likely required premiums to keep secondary guarantees in effect




SOA Research INSTITUTE

# 2015-2021 Universal Life Premium Persistency Study

- The completed study and Tableau dashboard will allow purchasing companies to:
  - View industry-level results
  - Compare their own experience to the industry
  - Compare their own experience to the results for a select group of peer companies
- Company confidentiality is protected via Tableau's suppression capabilities
  - If a single company has too much weight in a results cell, it will be suppressed
  - If a minimum number of companies do not have exposure in a results cell, it will be suppressed

SOA Research INSTITUTE



# Available on SOA website

https://www.soa.org/resources/experience-studies/2024/15-21-ulpp-ulls/



# US Population Mortality Observations: Updated with 2022 Experience - Report Delayed

- Late release of numbers by the CDC.

- Need extra time to determine what should be done with the Census Bureau information.
  - 2019 data is still using the 2010 Estimates Base.
  - 2020-2022 are using the 2020 Estimates Base, which is not yet final.

- There are odd observations for groups such as the older groups that aren't rooted in what has happened in the population.

SOA Research INSTITUTE

# US Population Mortality Observations: Updated with 2022 Experience - Plan for Report

- Revise the population values for 2019-2022 to estimate cumulative mortality for the three years and interim portions.
- Retain historical 1999-2009 and 2009-2019 mortality rates and assess the viability of estimated 2019-2022 rates to support the production of the report.
- The fallback option is to wait for the CDC to reissue numbers based on the final 2020 Population Estimates Base (Tentatively Fall of 2024).



SOA Research INSTITUTE

# Additional Life Research



# Experience Studies

| Project Name | Objective | Link/Expected Completion Date |
|---|---|---|
| 2015-21 Fixed Rate Deferred Surrender Study - Report | Complete a study of fixed rate deferred annuity surrender rates. | https://www.soa.org/resources/experience-studies/2024/15-22-frds/ |
| 2015-21 Universal Life Premium Persistency Study - Report | Analyze the premium persistency for universal life products - Data collection and validation phase | https://www.soa.org/resources/experience-studies/2024/15-21-ulpp-ulls/ |
| Group Life COVID-19 Mortality Survey Update - 1Q24 Report | Complete an update on a mortality study assessing the impact of COVID-19 on Group Life Insurance. | https://www.soa.org/resources/experience-studies/2024/group-life-covid19-mort-survey/ |
| 2009-2015 Individual Life Experience Committee Lapse and Mortality Study | Study mortality and lapse experience in the database of 2009-2015 individual life experience data and release a report with the findings. | 8/29/2024 |
| 2024 Life Mortality Improvement | Develop AG38 mortality improvement assumptions for YE 2024 | 9/30/2024 |
| Whole Life/Term Lapse and Surrender - Report | Complete a study of Whole Life/Term Lapse and Surrender | 12/18/2024 |
| Life Predictive Mortality Model | The theme is around the sharing and warehousing of PA tools and information, similar to a data science environment. | 7/30/2024 |
| ILEC Mortality Experience Report Update for 2009 - 2019 | Draft a report updating the ILEC mortality experience reporting for 2019 | 8/30/2024 |
| US Population Mortality Observations: Updated with 2022 Experience | Explore observations from the release of the 2022 U.S. population mortality data. | 9/30/2024 |
| 2021-22 Fixed Indexed Annuity Study - Report | Examine lapse and the utilization of guaranteed living withdrawal benefit options on fixed index annuity policies under a Joint SOA/LIMRA project and release Tableau visualizations with the observations from the study. | 10/31/2024 |
| 2022 Variable Annuity Guaranteed Living Benefit Utilization Study - Data Request | Examine the utilization of guaranteed living benefit options on variable annuity policies under a Joint SOA/LIMRA project. | 8/1/2024 |
| Economic Scenario Generator - 2024 Update | Update the AAA Economic Scenario Generator Annually. | 7/25/2024 |
| Group Life COVID-19 Mortality Survey Update - 2Q24 Report | Complete an update on a mortality study assessing the impact of COVID-19 on Group Life Insurance. | 8/31/2024 |
| GRET for 2025 - Create Factors | Develop the Generally Recognized Expense Table (GRET) for 2025 | 9/30/2024 |
| Conversion of Mortality and Lapse Experience - Report | Conduct a mortality and lapse experience study on the converted life insurance policies. | 12/1/2025 |

SOA Research INSTITUTE



# Practice Research

| Project Name | Objective | Link/Expected Completion Date |
|---|---|---|
| Mortality and Race | Summarize available literature on mortality and race and discuss actuarial aspects. | https://www.soa.org/resources/research-reports/2024/mortality-and-race-and-ethnicity-us/ |
| Maternal Mortality | Study maternal mortality in US and compare to other countries | https://www.soa.org/resources/research-reports/2024/maternal-mort-lit-review/ |
| 2022 Mortality by socioeconomic category update | Update mortality by socioeconomic lifetables with 2020 data and examine the impact of COVID 19 on socioeconomic mortality trends | https://www.soa.org/resources/research-reports/2024/covid-socioeconomic-mortality/ |
| Modeling and Forecasting Premature Cardiovascular Mortality | Examine cardiovacular disease mortality trends | https://www.soa.org/resources/research-reports/2024/modeling-premature-cardiovascular-mortality/ |
| Redesigning the Life Insurance Underwriting Journey with Behavioral Economics - Scor | Test BE wording for underwriting questions to improve honesty in answers and address under-disclosure of medical conditions | https://www.soa.org/resources/research-reports/2024/redesign-life-ins-underwriting/ |
| Statistical Approaches for Imputing Race and Ethnicity | Outline the various approaches for statistically imputing race and ethnicity in the U.S. along with their strengths and weaknesses to help familiarize actuaries with these techniques. | https://www.soa.org/resources/research-reports/2024/stat-methods-imputing-race-ethnicity/ |
| Review of Offshore Life and Annuity Jurisdictions Reinsurance Landscapes | Examine the offshore reinsurance landscapes | 10/31/2024 |
| ALM Practices | Conducts a survey of current ALM practices focused on various life insurance company products with attention paid to issues such as general account vs. separate account product distinctions. | 9/30/2024 |
| Using Behavioral Science to Improve Consumers' Comprehension and Appreciation of Life Insurance Products - RGA | Test and improve the life insurance communication using BE | 7/29/2024 |
| Fairness Metrics for Life Insurance | Identify and discuss a variety of quantitative metrics that could be used to evaluate fairness of life insurance products under different definitions of fairness. | 10/31/2024 |
| Mortality and Morbidity Impact of COVID-19 Beyond the Acute Phase | Study and quantify the excess death and excess morbidity impacts of the COVID-19 pandemic beyond the acute phase | 9/30/2024 |
| Expert Opinion on Impact of COVID-19 on Future Mortality - Survey 3 | Survey panel of experts on short and mid term thoughts on future population and insured mortality | 10/1/2024 |
| U.S. Drug Abuse Epidemic: Past Present and Future | Create a resource that examines the evolution of the U.S. drug epidemic and outlook of the impact on future mortality. | 1/15/2025 |

SOA Research INSTITUTE



SOA Research INSTITUTE

Agenda Item 12

Hear an Update from the American Academy of

Actuaries (Academy) Council on

Professionalism and Education

(No Materials)

Agenda Item 13

Hear an Update from the

Academy Life Practice Council

(Materials Pending)

Agenda Item 14

Hear an Update on

Academy Life Knowledge Statements

# American Academy of Actuaries Response to Knowledge Statement Request

Lisa Slotznick

Darrell Knapp

Rhonda Ahrens

August 12, 2024



American Academy of Actuaries

# About the Academy



- The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues.
- The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

For more information, please visit:

www.actuary.org

# Agenda



- Background
- Process to date
- Review draft language
- Next steps



American Academy of Actuaries

# Background



**Request from LATF at 2023 Fall National Meeting**

- LATF requested American Academy of Actuaries recommend knowledge statements for life actuaries signing certain Statements of Actuarial Opinion, including for actuaries serving as appointed actuaries, as illustration actuaries, and as qualified actuaries for principle-based reserves.
- HATF, although not making a formal request, raised a similar discussion in its meeting.



American Academy of Actuaries

# Process To Date



- Styled after the casualty knowledge statements that were developed by the NAIC's Casualty Actuarial Task Force
- Leveraged materials from the Academy's Life and Health Qualification Standards
- Focused on appointed actuaries first, both life and health
- Several regulator-only meetings to discuss preferences and strategy



American Academy of Actuaries

# Important Considerations



- The knowledge statements provided are recommendations in response to the LATF request and the HATF discussion.
- Knowledge statements are not a position of the Committee on Qualifications, and future use and modification of these recommendations are the responsibility of LATF and HATF.
- The knowledge statements focused on additional knowledge that an actuary should have to perform specifically identified tasks. This does not include basic knowledge of actuarial mathematics, accounting, economics, and risk theory that all actuaries should have (primarily knowledge demonstrated prior to the associateship level in either the Society of Actuaries or the Casualty Actuarial Society).
- Fulfillment of the knowledge statements does not imply an actuary is qualified to provide a given opinion. There are additional qualification requirements, and there may be additional knowledge required dependent on the topics covered under the opinion.



AMERICAN ACADEMY of ACTUARIES

# Drafted Language for Appointed Actuary



- The knowledge statements are broken down into eight groupings—Actuarial Opinion Scope; Laws, Statutes and Regulations; Policy Forms and Coverages; Principles of Insurance and Underwriting; Reserves; Other Considerations; Reinsurance; and Professionalism and Business Skills.
- The first seven groupings largely coincide with the specific topics mentioned in the U.S. Qualification Standards (policy forms and coverages; dividends and reinsurance; investments and valuations of assets and the relationship between cash flows from assets and related liabilities; statutory insurance accounting; valuation of liabilities; and valuation and nonforfeiture laws).



American Academy of Actuaries

# Next Steps



Will continue to draft qualified actuary and illustration actuary knowledge statements (*drafts anticipated before Fall National Meeting)*. We anticipate the qualified actuary draft will be a subset of the appointed actuary statement.

In November, the completed drafts will be submitted to LATF.



American Academy of Actuaries

# Questions?

For more information, please contact

Geralyn Trujillo

Senior Director, Public Policy

trujillo@actuary.org



American Academy of Actuaries

AMERICAN ACADEMY of ACTUARIES

August 1, 2024

Rachel Hemphill, Chair
Craig Chupp, Vice Chair
Life Actuarial (A) Task Force
National Association of Insurance Commissioners (NAIC)
1100 Walnut Street, Ste 1000
Kansas City, MO 64106

Re: Draft Knowledge Statements for Life and Health Actuaries

Dear Chair Hemphill and Vice Chair Chupp,

On behalf of the American Academy of Actuaries (Academy),[1] I appreciate the opportunity to share an update regarding the Life Actuarial (A) Task Force's (LATF) request following the Fall National Meeting in Orlando.

In your November 30, 2023, letter, you requested that the Academy develop knowledge statements that outline the knowledge necessary for life actuaries signing certain statements of actuarial opinion, including the roles of appointed actuary, illustration actuary, and qualified actuary for principles-based reserves. After meeting with you and several of the members of LATF and the Health (B) Actuarial Task Force (HATF) to better understand your expectations, the Academy has drafted the attached materials. This draft reflects our initial effort to develop such knowledge statements for appointed actuary roles for the blue blank filings (life). After LATF's review of these knowledge statements, we intend to develop the subsequent knowledge statements for qualified actuary and illustration actuary. We anticipate that the knowledge statements for qualified actuary will be a subset of the knowledge statements for an appointed actuary.

The drafted knowledge statements are intended to reflect a baseline level of knowledge that the actuary should have for a designated role. Meeting this baseline level of knowledge does not imply that an actuary is qualified to issue the specified actuarial opinion. The *Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States* (USQS) has many components of qualification beyond the baseline level of knowledge. In addition, there

[1] The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

may be certain situations where the specified actuarial opinion is so limited in scope that some components of the baseline level of knowledge are not necessary.

The knowledge statements were developed by a group of Academy volunteers and have not been subject to a formal exposure process. As such, they should not be interpreted to be prescriptive or to be an interpretation of the USQS.

The Academy is pleased to be able to assist LATF in this analysis. We appreciate your ongoing collaboration and feedback on this effort. Per your original request, we do expect that the final drafts will be submitted to LATF before the end of 2024. If you have any further questions, please feel free to contact Geralyn Trujillo, senior director of public policy (trujillo@actuary.org, 202-785-7875).

Sincerely,

Lisa Slotznick, President
American Academy of Actuaries

cc: Scott O'Neal, NAIC



# Knowledge Statements for Appointed Actuary for Life Blank

These knowledge statements would apply to Appointed Actuary for Life and apply to the Life, Accident and Health Annual Statement, also known as the Life Blank or Blue Blank for the Life A&H Annual Statement and Fraternal Annual Statement.

As stated within the Valuation Manual, Chapter 30 (VM-30), the requirements for an actuary to qualify as the Appointed Actuary and be permitted to sign the Actuarial Opinion, as stated in VM-30, Section 3.A.4., explains that the Appointed Actuary should be:

- A member of the American Academy of Actuaries (Academy);
- Appointed in accordance with the requirements of the Valuation Manual; and
- Meet the qualification standards set forth by the Academy for rendering the opinion.

The Academy qualification standards for rendering the opinion are in the "Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States (USQS), effective January 1, 2022. The standards were revised from prior editions of this qualification standard and therefore specifically apply to actuaries issuing Statements of Actuarial Opinion (SAO) starting on January 1, 2023. Furthermore, such actuaries need to meet the continuing education (CE) requirements before issuing any SAO.

Section 2.1 of the USQS specifies the Basic Education and Experience Requirements, stating that an actuary should have achieved the following:

- Through education or mutual recognition, received a Fellow or Associate designation from either the Society of Actuaries (SOA) or the Casualty Actuarial Society (CAS). It is important to note that this would most likely be the SOA for an actuary issuing an opinion related to the Life/Blue Blank.
- Membership in the Academy.
- Three years of responsible actuarial experience, which is defined as work that requires knowledge and skill in solving actuarial problems.
- Be knowledgeable, through education or documented professional development, of
    1. U.S. Law, including statues, regulations, judicial decisions, and other statements having legally binding authority, applicable to the SAO, and
    2. U.S. actuarial practices and principles.
- Have either
    1. Obtained Fellowship in the CAS or SOA. In addition to obtaining this fellowship, the actuary must:
        - i. Have completed education relevant to the subject of the SAO. Such education may have been obtained in attaining the fellowship designation or highest possible designation of a non-U.S. actuarial organization, or by completing additional education relevant to the subject of the SAO; or
        - ii. Have a minimum of one year of responsible actuarial experience in the particular subject relevant to the SAO, under the review of an actuary who



was qualified to issue the SAO at the time the review took place under the USQS in effect at the time.

OR

2. Have a minimum of three years of responsible actuarial experience in the particular subject relevant to the SAO, under the review of an actuary who was qualified to issue the SAO at the time the review took place under the USQS in effect at that time.

Section 3 of the USQS specifies the Specific Qualification Standards beyond those required to satisfy the General or Basic Education and Experience requirements. For issuing Life, A&H, and Fraternal SAO, this includes examinations administered by either the Academy or SOA covering

(a) policy forms and coverages,

(b) dividends and reinsurance,

(c) investments and valuations of assets and the relationship between cash flows form assets and related liabilities,

(d) statutory insurance accounting,

(e) valuation of liabilities, and

(f) valuation and nonforfeiture laws.

Alternatively, this education may be acquired through responsible work or self-study, if another qualified actuary familiar with the work is willing to attest to the knowledge of the opining actuary. To meet the experience requirement, an actuary is required to have at least three years of responsible experience relevant to the Opinion, under the review of another actuary who was qualified to issue the Opinion at the time the review took place.

*Note: Because the Life Blank may include Health Reserves, specifically on Exhibits 6 and 8, the life appointed actuary should have exposure to long-duration health products commonly sold by life companies, such as LTC, disability and dread disease products, and therefore will also need to refer to the Health Knowledge Statement.*

***DRAFTING NOTES: The regulators may allow caveats in the stem since not all statements filed on the Blue Blank will include every item listed in the Knowledge Statement.***

***To address the regulatory concern of "not knowing what you don't know," a comprehensive listing is a good direction. These knowledge statements should also be seen as a flexible document that keeps old products relevant while being updated to allow for new product concepts along the way***

***It may be beneficial to include guidance in a cover page or introduction to the knowledge statements that suggests a "best practice" for the actuary, encouraging record keeping of the key items and an explanation of how the actuary met the requirement, such as when they***



***achieved a credential or what their 1 or 3 years of experience looked like, which is kept updated. This record is particularly valuable when there are changes within their organization, to help an Appointed Actuary think about and know about when working with a new product.***

**A. Actuarial Opinion Scope**

The Life Actuarial Opinion Scope, per VM-30, Section 3.A.5. states that the scope of the opinion is:

- Exhibit 5 Reserves (Life)
  - Life Insurance
  - Annuities
  - Supplementary Contracts Involving Life Contingencies
  - Accidental Death Benefits
  - Disability Insurance – Active Life Reserves and Disabled Life Reserves
  - Miscellaneous Reserves
- Exhibit 6 Reserves (Accident and Health)
  - Active Life Reserve
  - Claim Reserve
- Exhibit 7
  - Guaranteed Interest Contracts
  - Annuities Certain
  - Supplemental Contracts
  - Dividend Accumulations or Refunds
  - Premium and Other Deposit Funds
- Exhibit 8, Part 1
  - Life
  - Health
- IMR
- AVR
- Unearned Premium Reserve
- Life PBR (VM-20)
- Annuity PBR (VM-21)
- Risk Based Capital (RBC) Requirements, either within the Valuation Manual or otherwise applicable under the Standard Valuation Law
- Forthcoming (applicable) Valuation Manual Sections

- Components of the actuarial opinion and the actuarial memorandum, including types of opinions and prescribed language
- Timing of actuarial opinion and actuarial memorandum

**B. Law, Statutes and Regulations**

The Appointed Actuary must be able to assess the effect of the legal environment on the reserves for which the Appointed Actuary is opining, along with the associated risks and uncertainties.



The Appointed Actuary must understand relevant U.S. and state insurance law, regulatory authority, and regulations.

1. Insurance law with respect to its impact on Life, Accident and Health insurance and Fraternal insurers
2. Financial solvency regulation's purpose
3. U.S. federal and state laws and regulations that pertain to the SAO
4. State specific laws, regulations, regulatory authority and rules regarding the preparation of annual statements
5. Principles of statutory accounting and sources of guidance
6. Familiarity with statutory accounting blanks, the NAIC's Accounting Practices and Procedures Manual, including all relevant SSAPs and Actuarial Guidelines.
7. Differentiation between reserves and liabilities
8. Covered versus uncovered liabilities
9. Treatment of reinsurance in statutory accounting, including transfer of risk issues
10. Elements of the RBC formula and the regulatory impact of RBC

### C. Policy Forms and Coverages

The Appointed Actuary must be able to assess the effect of insurance coverages and changes therein on the reserves for which the Appointed Actuary is opining, along with the associated risks and uncertainties. The Appointed Actuary must understand the types of insurable exposures and related insurance products.

1. Products typically offered by Life, A&H, or Fraternal carriers and associated characteristics including:
   a. Individual Life Insurance
   b. Individual Fixed, Fixed Indexed and Variable Deferred Annuities
   c. Immediate Annuities and Settlement Options, with and without Life Contingencies
   d. Other Supplemental Contracts
   e. Group Life
   f. Group Annuities
   g. GICs and Funding Agreements
   h. Pension Risk Transfer Arrangements
   i. Ancillary Benefits and Riders such as Accidental Death Benefits, Waiver of Premium, etc.
   j. Medical insurance, including individual, small group, large group, self-funded, Medicare advantage, Medicare Part D, Medicare Supplement, Medicaid Managed Care, and short term medical.
   k. Dental and vision insurance.
   l. Disability insurance, both short-term disability and long-term disability
   m. Long-term care.



   n. Other health insurance, including but not limited to, cancer/critical illness and hospital and other fixed indemnity.

2. Features typically offered by Life, A&H or Fraternal carriers and associated characteristics including:
   a. Accelerated Death Benefits
   b. Return of Premium
   c. Critical Illness, Terminal Illness, Long-Term Care and Other Rider Benefits
   d. Guaranteed Death Benefits
   e. Guaranteed Living Benefits
   f. Cash and Nonforfeiture Values

**D. Principles of insurance and underwriting**

The Appointed Actuary must be able to assess the effect of underwriting and marketing, and changes therein on the reserves for which the Appointed Actuary is opining, along with the associated risks and uncertainties. The Appointed Actuary must understand how insurance companies assume risk through marketing and underwriting.

1. Various types of underwriting for each of the coverages and features described in Section C, Policy Forms and Coverages, above, including differences between full underwriting, accelerated underwriting, simplified issue and guaranteed issue.
2. Concept of insurable risk.
3. Product characteristics giving the insured optionality to select against the insurer.
4. Various types of marketing and distribution methods for each of these coverages, as well as the differences in underwriting and/or policyholder behavior that may be associated with each.
5. For products most commonly offered by health carriers and associated characteristics, behavioral choices involved as a form of underwriting, including:
   a. Impact of limited networks and limited coverages
   b. Impact of healthy lifestyle benefits on individual choice
   c. Individual choice relationship to funding sources.
6. Seasonal patterns of claim incurrals for various products.

**E. Reserves**

The Appointed Actuary must understand and apply reserving methods, analysis, and diagnostics to derive actuarial reserves. Additionally, the Appointed Actuary must understand the company's internal operations and data, external environment, and relevant changes therein. Furthermore, the Appointed Actuary must be able to produce an SAO, an Actuarial Opinion summary, and an Actuarial Report in accordance with the NAIC Annual Statement Instructions and understand and produce the statutory minimum reserve for each product. Also, the Appointed Actuary must be knowledgeable of the methods of analysis used, as referred to in VM-30, Section 2.B. This section cites conformance with Actuarial Standards of Practice (ASOPs) and methods of analysis that are deemed appropriate for such purposes by the ASB.

1. All non-modeled reserves, such as formulaic and PBR Net Premium Reserve.
2. Modeled Reserve required by the Valuation Manual (aka Principle-Based Reserve).
    a. Knowledge of models:
        i. Impacts of model simplification.
    b. Knowledge of experience studies and assumption development:
        i. Credibility of data.
        ii. Volatility of assumptions/impact on results.
    c. Appropriate use of margins or assumption pads.
    d. The discount rate and NAER assumptions for PBR reserve, understanding of assets, asset risks, asset returns, reinvestment assumptions.
3. Unearned Premium Reserve.
4. For health products: ALR/Contract Reserve, Unearned Premium Reserve, DLR/Claim Reserve and Premium Deficiency Reserve.
5. Reserves for Base Contract and any riders (if reserved for separately).
6. Interest Maintenance Reserve.
7. Asset Valuation Reserve.
8. Adequacy of Asset Supporting Reserve:
    a. Asset Models and Assumptions related to the asset, risks present in individual assets or types of assets, and return assumptions related to assets.
    b. Reinvestment Assumptions, including the availability of assets in the future for purchase as reinvestment assets, as well as the risks related to the timing of future reinvestments.
    c. How the starting assets and reinvestment strategy impact Net Earned Rate and Discount Rates.
    d. Asset Adequacy Analysis and related SAOs.

**F. Other Considerations**

1. The Appointed Actuary must understand and the reserving methods for other reserves and liabilities, as well as the placement of various reserve items within the blue blank
2. The Appointed Actuary must understand asset adequacy analysis and how to determine any amount of additional reserves to be established
3. The Appointed Actuary must understand the treatment of reserve changes related to basis, method and assumption changes, and whether they flow through income or surplus, when and how.
4. The Appointed Actuary must understand health reserving considerations (see Health Knowledge Statement, as applicable), to include:
    a. Premium reserves, assets and liabilities typically found in health products, methods for calculating.



b. Loss reserves, assets and liabilities typically found in health products, methods for calculating (including considerations):
    i. Unpaid claim reserves and liabilities including segmentation into not reported, in course of settlement, due and unpaid and present value of amounts not yet due.
    ii. Contract reserves and gross premium reserves including prescribed minimum assumptions.
    iii. Provider assets and liabilities including the types of contractual provisions that give rise to such assets/liabilities.

c. Claim adjustment expense liability.

d. Elements in calculating premium deficiency reserves.

e. Capitations and risk of provider insolvency.

f. Other actuarial assets often associated with health insurance products, methods for estimating, and necessary conditions for admissibility:
    i. Provider risk sharing receivables
    ii. Loans and advances to providers
    iii. Capitation arrangement receivables
    iv. Pharmacy rebate receivables
    v. Claim overpayment receivables
    vi. Seasonal patterns of claims incurred for various products.

**G. Reinsurance**

The Appointed Actuary must be able to assess the effect of reinsurance on the reserves for which the Appointed Actuary is opining, along with the associated risks and uncertainties. The Appointed Actuary must understand the functions and types of reinsurance, relevant contract features, risk transfer principles, and reinsurance accounting, recognition and collectability issues. The Appointed Actuary must understand basic reinsurance terminology (e.g., limits, retentions/attachment points, quota share, excess of loss, non-proportional, experience refund, allowances, clauses, reinstatements, co-insurance, commissions). The Appointed Actuary must also understand:

1. The function and types of reinsurance.
2. Reinsurance contracts interpretation.
3. Reinsurance contracts to determine the treatment of loss adjustment expenses (LAE) (e.g., within limits, in addition to limits, shared pro rata).
4. Commutations and novations including definition, motivations of parties, accounting treatment, impact (or not) on policyholders.
5. Impact on financial statements from contract qualification criteria for prospective or retroactive reinsurance accounting treatment or deposit accounting treatment.
6. Reinsurance risk transfer testing.
7. Assessing collectability (e.g., sources, rating agencies, letters of credit, news items, amounts in dispute or overdue).
8. The impact of authorized, unauthorized, certified reinsurance on collateral and collectability.



9. Differences between reinsurance and primary reserving procedures (e.g., adapting methods for available data, type of reinsurance, terms).
10. Factors considered in the evaluation of the applicability of a reinsurance program to an unpaid claim estimate.
11. Possible parameter differences for direct, assumed, gross, ceded and net data (e.g., loss development factors and initial expected loss ratios).
12. Treatment of assets and reserves on the financial statements. (For example, mod-co reserves and assets are held by the cedant; FWH assets, even in a trust, are owned by the cedant; plain-vanilla coinsurance agreements have both parties holding separately calculated assets and liabilities.)
13. Consideration of the treatment of reinsurance by reinsurers outside of US Jurisdiction.

## I. Professionalism and Business Skills

The Appointed Actuary must have professional and business skills to enable the Appointed Actuary to perform the required actuarial services in an ethical manner that upholds the reputation of the actuarial profession. The Appointed Actuary must know and adhere to the Code of Professional Conduct, as well as relevant ASOPs and must meet the USQS. The Appointed Actuary must have the professional and business skills to manage the tasks, make informed decisions, communicate effectively with users of the actuary's work products, resolve disagreements, and seek guidance as necessary.

1. Code of Conduct: Familiarity with the Code of Conduct and its application in professional scenarios.
2. USQS: Profound understanding of the USQS.
3. ASOPs and Applicability: Mastery of applicable ASOPs and guidelines for their application. The actuary should refer to the Academy's Applicability Guidelines for help in determining applicable ASOPs.
4. The importance of Documentation of work as discussed in many ASOPs and as required by the Laws and Regulations applicable to the SAO.

Familiarity with the relevant Practice Notes from the Academy is also a valuable component of professionalism.



Agenda Item 15

Hear an Update from the Interstate Insurance

Product Regulation Commission

(No Materials)

Agenda Item 16

Consider Exposure of the Generally Recognized

Expense Tables (GRETs)

SOA Research INSTITUTE

# 2025 GRET Recommendation

Tony Phipps, FSA, MAAA
Chair, SOA Research Institute Committee on Life Insurance Company Expenses
August 12, 2024

Mortality and Longevity

# Agenda

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

# Presentation Disclaimer

*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 Research Institute assumes no responsibility for the content, accuracy or completeness of the information presented.*

SOA Research INSTITUTE

# Methodology

1. Calculate Actual to Expected Expenses
   - Gather data from company Annual Statement submissions - provided by NAIC
   - Apply seed factors to calculate expected expenses.
2. Determine Distribution Channel
   - Survey sent by SOA Research Institute to companies to determine primary distribution channel.
   - For companies that did not respond, used distribution channel previously gathered.
3. Remove outlier companies
4. Analyze data to derive unit expense factors by Distribution Channel

# Seed Values

Expenses allocated to acquisition and maintenance categories using the same seeds as has been previously used:

- Acquisition/Policy: $200.00
- Acquisition/Face Amount: $1.10
- Acquisition/Premium: 50%
- Maintenance/Policy: $60.00

SOA Research INSTITUTE

# Recommendation for 2025 GRET Factors

| Proposed 2025 GRET Factors Based on Average of 2022/2023 Data | | | | | |
|---|---|---|---|---|---|
| Description | Acquisition per Policy | Acquisition per Unit | Acquisition per Premium | Maintenance per Policy | Company Count |
| Independent | $204 | $1.10 | 51% | $61 | 147 |
| Career | 227 | 1.20 | 57% | 68 | 86 |
| Direct Marketing | 239 | 1.30 | 59% | 72 | 24 |
| Niche Marketing | 131 | 0.70 | 33% | 39 | 27 |
| Other* | 159 | 0.90 | 40% | 48 | 94 |
| * Includes companies that did not respond to this or prior year surveys | | | | | 378 |

| Current 2024 GRET Factors Based on Average of 2021/2022 Data | | | | | |
|---|---|---|---|---|---|
| Description | Acquisition per Policy | Acquisition per Unit | Acquisition per Premium | Maintenance per Policy | Company Count |
| Independent | $198 | $1.10 | 50% | $59 | 140 |
| Career | 206 | 1.10 | 52% | 62 | 90 |
| Direct Marketing | 217 | 1.20 | 54% | 65 | 23 |
| Niche Marketing | 132 | 0.70 | 33% | 40 | 31 |
| Other* | 162 | 0.90 | 41% | 49 | 95 |
| * Includes companies that did not respond to this or prior year surveys | | | | | 379 |

# Comparison to Prior Years

| Acquisition per Policy | | | | | |
|---|---|---|---|---|---|
| Description | 2025 | Percentage Change | 2024 | Percentage Change | 2023 |
| Independent | $204 | 3% | $198 | 10% | $180 |
| Career | 227 | 10% | 206 | 1% | 203 |
| Direct Marketing | 239 | 10% | 217 | 10% | 197 |
| Niche Marketing | 131 | -1% | 132 | -10% | 147 |
| Other* | 159 | -2% | 162 | 6% | 153 |

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

| Acquisition per Unit | | | | | |
|---|---|---|---|---|---|
| Description | 2025 | Percentage Change | 2024 | Percentage Change | 2023 |
| Independent | $1.10 | 0% | $1.10 | 10% | $1.00 |
| Career | 1.20 | 9% | 1.10 | 0% | 1.10 |
| Direct Marketing | 1.30 | 8% | 1.20 | 9% | 1.10 |
| Niche Marketing | 0.70 | 0% | 0.70 | -13% | 0.80 |
| Other* | 0.90 | 0% | 0.90 | 0% | 0.90 |

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

# Comparison to Prior Years

| Acquisition per Premium | | | | | |
|---|---|---|---|---|---|
| Description | 2025 | Percentage Change | 2024 | Percentage Change | 2023 |
| Independent | 51% | 2% | 50% | 11% | 45% |
| Career | 57% | 10% | 52% | 2% | 51% |
| Direct Marketing | 59% | 9% | 54% | 10% | 49% |
| Niche Marketing | 33% | 0% | 33% | -11% | 37% |
| Other* | 40% | -2% | 41% | 5% | 39% |

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

| Maintenance per Policy | | | | | |
|---|---|---|---|---|---|
| Description | 2025 | Percentage Change | 2024 | Percentage Change | 2023 |
| Independent | $61 | 3% | $59 | 9% | $54 |
| Career | 68 | 10% | 62 | 2% | 61 |
| Direct Marketing | 72 | 11% | 65 | 10% | 59 |
| Niche Marketing | 39 | -3% | 40 | -9% | 44 |
| Other* | 48 | -2% | 49 | 7% | 46 |

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

SOA Research INSTITUTE

# Survey Results

- Percent of survey respondents that that responded that GRET factors are used for individual life sales illustration purposes:

| Pecentage of Companies that use GRET Factors | |
|---|---|
| Survey Year | Percentage |
| 2024 | 34% |
| 2023 | 44% |
| 2022 | 35% |
| 2021 | 31% |
| 2020 | 29% |
| 2019 | 26% |
| 2018 | 28% |
| 2017 | 30% |

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

SOA Research INSTITUTE

# Information on Companies in Study

- NAIC Data extracts included:
  - 2023: 745 companies
  - 2022: 749 companies
- The final companies used in the 2025  GRET calculation was 378, down one from 2024.
- Total ordinary volume issued saw an increase of 3.29% (60.6m) in 2023 after seeing a decrease of 5.12% (91.6m) in the previous year.
- Total ordinary policies issued remained flat (4,262 less policies out of a total of 9.1M)
- This year's survey, 34% of respondents indicated they use GRET factors for individual life sales illustration, returning to the historical range of 31-35%.

# Questions?

SOA Research INSTITUTE

8770 W Bryn Mawr Ave, Suite 1000
Chicago, IL 60631
P +1-888-697-3900
soa.org

**TO:** Rachel Hemphill, Chair, Life Actuarial (A) Task Force

**FROM:** Pete Miller, ASA, MAAA, Experience Study Actuary, Society of Actuaries (SOA) Research Institute
Tony Phipps, Chair, SOA Research Institute Committee on Life Insurance Company Expenses

**DATE:** August 1, 2024

**RE:** 2025 Generally Recognized Expense Table (GRET) – SOA Research Institute Analysis

Dear Ms. Hemphill:

As in previous years, the Society of Actuaries Research Institute expresses its thanks to NAIC staff for their assistance and responsiveness in providing Annual Statement expense and unit data for the 2025 GRET analysis for use with individual life insurance sales illustrations. The analysis is based on expense and expense-related information reported on each company's 2022 and 2023 Annual Statements. This project has been completed to assist the Life Actuarial Task Force (LATF) in considering potential revisions to the GRET that could become effective for the calendar year 2025. This memo describes the analysis and resultant findings.

NAIC staff provided Annual Statement data for life insurance companies for calendar years 2022 and 2023. This included data from 749 companies in 2022 and 745 companies in 2023. This decrease resumes the trend of small decreases from year to year. Of the total companies, 378 were in both years and passed the outlier exclusion tests and were included as a base for the GRET factors (379 companies passed similar tests last year).

## Approach Used

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

To calculate updated GRET factors, the average of the factors from the two most recent years (2021 and 2022 for those companies with data available for both years) of Annual Statement data was used. For each company, an actual-to-expected (A/E) 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 in future years to increase the response rate to the surveys of companies that submit Annual Statements 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 the enhancement of this multiple distribution channel information.

Companies were excluded from the analysis if in either 2022 or 2023, (1) their A/E 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 the data supplied by the NAIC. To derive the overall GRET factors, the unweighted average of the remaining companies' A/E 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 2025 GRET values shown in Table 1. To facilitate comparisons, the current 2024 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 2024 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 2, including the average premium per policy issued and the average face amount ($000s) per policy issued.

TABLE 1

PROPOSED 2025 GRET FACTORS, BASED ON AVERAGE OF 2022/2023 DATA

| DESCRIPTION | Acquisition per Policy | Acquisition per Unit | Acquisition per Premium | Maintenance per Policy | Companies Included | Average Premium Per Policy Issued During Year | Average Face Amt (000) Per Policy Issued During Year |
|---|---|---|---|---|---|---|---|
| Independent | 204 | $1.10 | 51% | 61 | 147 | 3,008 | 241 |
| Career | 227 | 1.20 | 57% | 68 | 86 | 2,739 | 218 |
| Direct Marketing | 239 | 1.30 | 59% | 72 | 24 | 465 | 119 |
| Niche Marketing | 131 | 0.70 | 33% | 39 | 27 | 649 | 12 |
| Other* | 159 | 0.90 | 40% | 48 | 94 | 869 | 81 |
| * Includes companies that did not respond to this or prior year surveys | | | | | 378 | | |

TABLE 2

CURRENT 2024 GRET FACTORS, BASED ON AVERAGE OF 2021/2022 DATA

| DESCRIPTION | Acquisition per Policy | Acquisition per Unit | Acquisition per Premium | Maintenance per Policy | Companies Included | Average Premium Per Policy Issued During Year | Average Face Amt (000) Per Policy Issued During Year |
|---|---|---|---|---|---|---|---|
| Independent | $198 | $1.10 | 50% | $59 | 140 | 3,433 | 222 |
| Career | 206 | 1.10 | 52% | 62 | 90 | 2,325 | 196 |
| Direct Marketing | 217 | 1.20 | 54% | 65 | 23 | 767 | 122 |
| Niche Marketing | 132 | 0.70 | 33% | 40 | 31 | 347 | 10 |
| Other* | 162 | 0.90 | 41% | 49 | 95 | 917 | 80 |
| * Includes companies that did not respond to this or prior year surveys | | | | | 379 | | |



In previous recommendations, an effort was made to reduce volatility in the GRET factors from year to year by limiting the yearly change in GRET factors to about ten percent of the prior value. The changes from the 2024 GRET were reviewed to ensure that a significant change was not made in this year's GRET recommendation.

All GRET factors the Direct Marketing distribution channel and the Acquisition per Unit factor for Career experienced changes greater than ten percent, so the factors for these lines were capped at the ten percent level (or slightly above/below 10% due to rounding of the factor) from the corresponding 2024 GRET values. This volatility occurred due to an increasing median A/E ratio for each distribution channel, which allowed for additional companies with higher A/E ratios to be included in the calculation that were previously dropped. Final GRET A/E medians increased for all distribution types with the largest changes in the Career and Direct Marketing sections.

The average premium per policy issued during the year saw a decrease of 518 from last year to this year, accompanying this is a 4,262 policy decrease in policies issued from last year to this year. This increase in A/E medians is due to the 6.4% increase in the average face amount per policy issued for all distribution types.

## Usage of the GRET

This year's survey, responded to by each company's Annual Statement correspondent, included a question regarding whether the 2024 GRET table was used in its illustrations by the company. Last year, 44% of the responders indicated their company used the GRET for sales illustration purposes, which is much higher than previous years, typically around 31-35% of companies indicate their usage of GRET. This year, 34% of responding companies indicated they used the GRET in 2024 for sales illustration purposes. The range covered all distribution methods, including 20% for Independent, 63% for Career, 80% for Direct Marketing, and 17% for Niche Marketers. 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 Pete Miller at 847-706-3566.

Kindest personal regards,

Peter J. Miller

Pete Miller, ASA, MAAA
Experience Studies Actuary
Society of Actuaries Research Institute

Tony Phipps, FSA, MAAA
Chair, SOA Research Institute Committee on
Life Insurance Company Expenses



## Appendix A – Distribution Channels

The following is a description of distribution channels used in the development of recommended 2023 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.



SOA Research INSTITUTE

## 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 2024 GRET and the 2023 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 2020 Annual Statement submission this information will become more readily available.

**2006-2010 (AVERAGE) CLICE STUDIES:**

| | Acquisition/ Policy | Acquisition/ Face Amount (000) | Acquisition/ Premium | Maintenance/ Policy |
|---|---|---|---|---|
| Term | | | | |
| Weighted Average | $149 | $0.62 | 38% | $58 |
| Unweighted Average | $237 | $0.80 | 57% | $76 |
| Median | $196 | $0.59 | 38% | $64 |
| | | | | |
| Permanent | | | | |
| Weighted Average | $167 | $1.43 | 42% | $56 |
| Unweighted Average | $303 | $1.57 | 49% | $70 |
| Median | $158 | $1.30 | 41% | $67 |

**CURRENT UNIT EXPENSE SEEDS:**

| | Acquisition/ Policy | Acquisition/ Face Amount (000) | Acquisition/ Premium | Maintenance/ Policy |
|---|---|---|---|---|
| | | | | |
| All distribution channels | $200 | $1.10 | 50% | $60 |



Agenda Item 17

Discuss Any Other Matters Brought Before the Task Force

(No Materials)