NAIC NATIONAL MEETING SPRING 2023

Draft date: 3/14/23

2023 Spring National Meeting
Louisville, Kentucky

LIFE RISK-BASED CAPITAL (E) WORKING GROUP
Wednesday, March 22, 2023
8:00 – 9:00 a.m.
Ballroom A - Main Concourse Level - KY Convention Center

ROLL CALL

Philip Barlow, Chair	District of Columbia	William Leung	Missouri
Sheila Travis	Alabama	Michael Muldoon	Nebraska
Thomas Reedy	California	Seong-min Eom	New Jersey
Wanchin Chou	Connecticut	Bill Carmello	New York
Dalora Schafer	Florida	Andrew Schallhorn	Oklahoma
Vincent Tsang	Illinois	Rachel Hemphill	Texas
Mike Yanacheak	Iowa	Tomasz Serbinowski	Utah
Fred Andersen	Minnesota		

NAIC Support Staff: Dave Fleming

AGENDA

1. Consider Adoption of its Jan. 26, 2023; and 2022 Fall National Meeting Minutes—*Philip Barlow (DC)* Attachments A&B

2. Discuss C-2 Mortality Risk—*Philip Barlow (DC)*

3. Discuss Working Agenda and Priorities—*Philip Barlow (DC)* Attachment C

4. Discuss Runoff Companies—*Philip Barlow (DC)*

5. Discuss Any Other Matters Brought Before the Working Group —*Philip Barlow (DC)*

6. Adjournment

Draft: 3/11/23

Life Risk-Based Capital (E) Working Group
Virtual Meeting
January 26, 2023

The Life Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met Jan. 26, 2023. The following Working Group members participated: Philip Barlow, Chair (DC); Thomas Reedy (CA); Wanchin Chou (CT); Hannah Howard (FL); Vincent Tsang (IL); Mike Yanacheak and Carrie Mears (IA); Laura Rickbell (MN); William Leung (MO); Michael Muldoon (NE); Seong-min Eom (NJ); Bill Carmello (NY); Jennifer Li (TX); and Tomasz Serbinowski (UT).

1. Exposed the Academy's C2 Mortality Risk Work Group's Proposal

Chris Trost (American Academy of Actuaries—Academy), chair of the Academy's C2 Mortality Risk Work Group, said there are two updates identified as additional items needed as part of the implementation of the Academy's work. The first relates to structural changes and instruction updates to address the treatment of group permanent life policies as well as some additional instructional changes to provide clarity and the second relates to a new financial statement note that will develop the net amounts at risk (NAR) in the categories needed for the Life C-2 schedule to create a direct link to a financial statement source. Ryan Fleming (Academy) detailed the changes. He noted one of the changes to the instructions is to remove what was labeled as the permanent and term flexibility factors as they may have created some confusion with the actual capital factors when they were intended to represent the difference between categories. The Working Group discussed how to coordinate with other NAIC groups with respect to the financial statement note for 2023 implementation and agreed to expose the Academy's proposal (Attachment 1) for a public comment period of 30 days.

2. Exposed Proposed Revisions to CM6 and CM7 Mortgage RBC Factors and Formula

John Waldeck (Pacific Life) presented an update (Attachment 2) from the Mortgage Bankers Association (MBA) and the American Council of Life Insurers (ACLI) in response to the questions raised by the Working Group with respect to the proposed revisions. The Working Group agreed to expose the proposal for a public comment period of 45 days.

3. Exposed Proposed Revisions to Remove the Dual Presentation of the Trend Test

Dave Fleming (NAIC) said the dual presentation was no longer needed as all states have adopted the higher trend test threshold. The Working Group agreed to expose the proposal (Attachment 3) for a public comment period of 15 days.

Having no further business, the Life Risk-Based Capital (E) Working Group adjourned.

Draft: 1/9/23

Life Risk-Based Capital (E) Working Group
Tampa, Florida
December 13, 2022

The Life Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met in Tampa, FL, Dec. 13, 2022. The following Working Group members participated: Philip Barlow, Chair (DC); Sheila Travis (AL); Thomas Reedy (CA); Wanchin Chou (CT); Dalora Schafer (FL); Mike Yanacheak (IA); Vincent Tsang (IL); Ben Slutsker (MN); Michael Muldoon (NE); Seong-min Eom (NJ); Bill Carmello (NY); Rachel Hemphill (TX); and Tomasz Serbinowski (UT). Also participating was: Tom Botsko (OH).

1. Adopted its Oct. 20, Oct. 7, and Summer National Meeting Minutes

Chou made a motion, seconded by Muldoon, to adopt the Working Group's Oct. 20 (Attachment A), Oct. 7 (Attachment B), and July 27 (*see NAIC Proceedings – Summer 2022, Capital Adequacy (E) Task Force, Attachment Four*) minutes. The motion passed unanimously.

2. Discussed C-2 Mortality Risk Guidance

Ryan Fleming (American Academy of Actuaries—Academy) said the Academy hopes the initial version of the instruction supplement has been helpful to companies as they prepare for the new structure and factors for year-end 2022, and the Academy is also appreciative of the feedback received from state insurance regulators, as well as the comments submitted by the American Council of Life Insurers (ACLI). He said the Academy plans turn over any updates to the supplement, as well as any work to incorporate it as an official part of the risk-based capital (RBC) instructions to the NAIC, but the Academy would continue to be available to assist in those efforts. Brian Bayerle (ACLI) noted an issue that was identified with the formulas in the forecasting file, and he expressed appreciation to Barlow and NAIC staff for taking the feedback and addressing it. He said the ACLI believes the supplement should be incorporated into the instructions for 2023, along with any items that need to be cleaned up, and he said the ACLI would be willing to work with the NAIC and the Academy toward that goal. Barlow said incorporating the guidance, once it is adopted, into the instructions has been part of the discussions previously, and he said that should be a relatively easy process.

Fleming addressed the questions in the ACLI's comment letter (Attachment C). With respect to the ACLI's question on the treatment of reinsurance and whether there would need to be coordination between the reinsurers and the direct companies, he said the Academy does not believe it would be practical that there be coordination in all instances. Ideally, the ceding company and the reinsurer would come to the same classification independently, but, ultimately, that is something state insurance regulators could opine on. Fleming said the ACLI's second question relates to how the sized tiers get allocated to the subcategories within the structure, and this may be related to some questions that came up when the original forecasting file was sent out, where it did not appear that this was being done, but that has been addressed and now. As companies use the forecasting file, they should be able to see that there is a proportionate allocation of the size tiers to each of the subcategories and that it is handled formulaically, so it is not something companies would need to develop. With respect to the ACLI's question as to how to use pricing flexibility factors varying by tier, Fleming said the RBC requirement can be calculated by determining the difference due to whether the product or group of policies are with or without pricing flexibility. Barlow asked if that means additional examples are not needed. Fleming said it would be difficult to come up with examples to address all the possible complexities, and companies would be able to use the forecasting file to see how their business is handled directly. He said outside of the RBC schedule, companies will identify the amount of business that will go into each of the subcategories, and from that point, the RBC

requirement will be calculated in the RBC schedule based on the amounts entered for each category. He said the work outside of the RBC schedule is to demonstrate the flexibility needed to qualify for that category, and it involves taking the difference in the factors with and without pricing flexibility and demonstrating that the company has the ability to adjust. He said this leads to the ACLI's next question. He said there were some adjustments made to the RBC factors late in the process, and what ended up in the table in the instructions is something that is overly conservative, and it reduced the difference between the categories. He said this is something that could be addressed through additional instruction updates for 2023. With respect to nonguaranteed elements, He said the Academy was looking at what would be a typical practice where companies would be looking to mortality-related elements of their products to adjust for changes in mortality experience. He said one interpretation of this could be that it is too restrictive, and companies, depending upon their practices, may look to adjust other components. He said this is something that could perhaps be clarified, but the overarching guidance really relates to what is in Actuarial Standard of Practice (ASOP) No. 2, whereas what the Academy included is more of what would be a typical practice. Bayerle asked if that means companies should have the flexibility to make other adjustments, and, if so, that might be clarified and also clarified in the 2023 instructions. Fleming agreed, but he said it would really depend upon what practices the company typically uses. With respect to the ACLI comment on the use of the word "triggered," he said it is intended to indicate when the secondary guarantee becomes effective. Barlow asked if the intent is to adjust the language in the instruction supplement for the items where clarification is being provided. Fleming said it would be beneficial since it has been pointed out as an area of potential confusion. Given the Academy's responses, Barlow asked Bayerle if the ACLI still needs additional examples. Bayerle said he is unsure, but he appreciates that the direct formulas are available in the forecasting file. He asked Fleming for thoughts on how companies should handle the ceded piece with respect to the tiers. Fleming said the tiering would be based on the net amounts entered into the RBC schedule, so it is net of reinsurance. He also noted the Academy's intent to work on a possible update to the annual statement, where the creation of a new financial statement note would facilitate the population of the RBC schedule, which would help with the complexity between direct and reinsured amounts.

Barlow said it appears that some changes are needed to the guidance document as a result of the ACLI's comments and this discussion, and there are potential changes to be considered for 2023 that include incorporating the guidance into the instructions, along with possible changes to both the annual statement, as well as structural changes to the RBC schedule. Dave Fleming (NAIC) said he would work with the Academy and provide an updated guidance document for the Working Group to consider for adoption via e-vote prior to year-end.

3. Discussed Runoff Companies

In response to a request for input from the Restructuring Mechanisms (E) Working Group, the Property and Casualty Risk-Based Capital (E) Working Group shared its response with the Life Risk-Based Capital (E) Working Group. Barlow said the issue is whether there needs to be any consideration for RBC on the treatment of companies in runoff. Botsko said the Property and Casualty Risk-Based Capital (E) Working Group determined that no special RBC calculation should be created, but there were some considerations to be given during the exam or analysis process. Barlow said he believes this would be less of a concern for life companies than property/casualty (P/C) companies, and he said he would be comfortable following the Property and Casualty Risk-Based Capital (E) Working Group's lead, but he indicated that the Life Risk-Based Capital (E) Working Group could consider this more on a future call.

Having no further business, the Life Risk-Based Capital (E) Working Group adjourned.

Priority 1 – High Priority
Priority 2 – Medium Priority
Priority 3 – Low Priority

CAPITAL ADEQUACY (E) TASK FORCE
WORKING AGENDA ITEMS FOR CALENDAR YEAR 2023

2023 #	Owner	2023 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
Ongoing Items – Life RBC							
L1	Life RBC WG	Ongoing	Ongoing	Make technical corrections to Life RBC instructions, blank and /or methods to provide for consistent treatment among asset types and among the various components of the RBC calculations for a single asset type.			
L2	Life RBC WG	1	2022 or later	1. Monitor the impact of the changes to the variable annuities reserve framework and risk-based capital (RBC) calculation and determine if additional revisions need to be made. 2. Develop and recommend appropriate changes including those to improve accuracy and clarity of variable annuity (VA) capital and reserve requirements.	CADTF	Being addressed by the Variable Annuities Capital and Reserve (E/A) Subgroup	
L3	Life RBC WG	1	2022 or later	Provide recommendations for the appropriate treatment of longevity risk transfers by the new longevity factors.	New Jersey	Being addressed by the Longevity (E/A) Subgroup	
Carryover Items Currently being Addressed – Life RBC							
L4	Life RBC WG	1	2022 or later	Update the current C-3 Phase I or C-3 Phase II methodology to include indexed annuities with consideration of contingent deferred annuities as well	AAA		
L5	Life RBC WG	1	2022 or later	Work with the Life Actuarial (A) Task Force and Conning to develop the economic scenario generator for implementation.			
L6	Life RBC WG	1	2022	Review companies at action levels, including previous years, to determine what drivers of the events are and consider whether changes to the RBC statistics are warranted.			
L7	Life RBC WG	1	2022	Work with the Academy on creating guidance for the adopted C-2 mortality treatment for 2022 and next steps for 2023.			