NON-VARIABLE ANNUITY PBR UPDATE

John R. Miller, MAAA, FSA, Co-Chairperson
Matthew Coleman, MAAA, FSA, Co-Chairperson
Annuity Reserves Workgroup (ARWG)
American Academy of Actuaries

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VM-22 Proposed Timeline

- VM-22 Target implementation date of 1/1/2022
  - Methodology would apply to YE 2022 valuations
 - Note: VM-21 expected to apply to 2020 valuations

VM-22 Proposed Timeline

- ARWG recommendations for VM-22 would need to be completed by the end of 2019
  - Modeled Reserve and Exclusion Test methodologies
    - Identify areas consistent with VM-21 and variances from VM-21
    - Methodologies for products not contemplated in VM-21
- LATF conceptual approval and VM-22 drafting to begin in 2020
- Field Testing - to be determined
  - Company comments on methodology exposures
  - Industry modeling effort – VM-20 or VM-21 like approach ?

VM-22 Approach
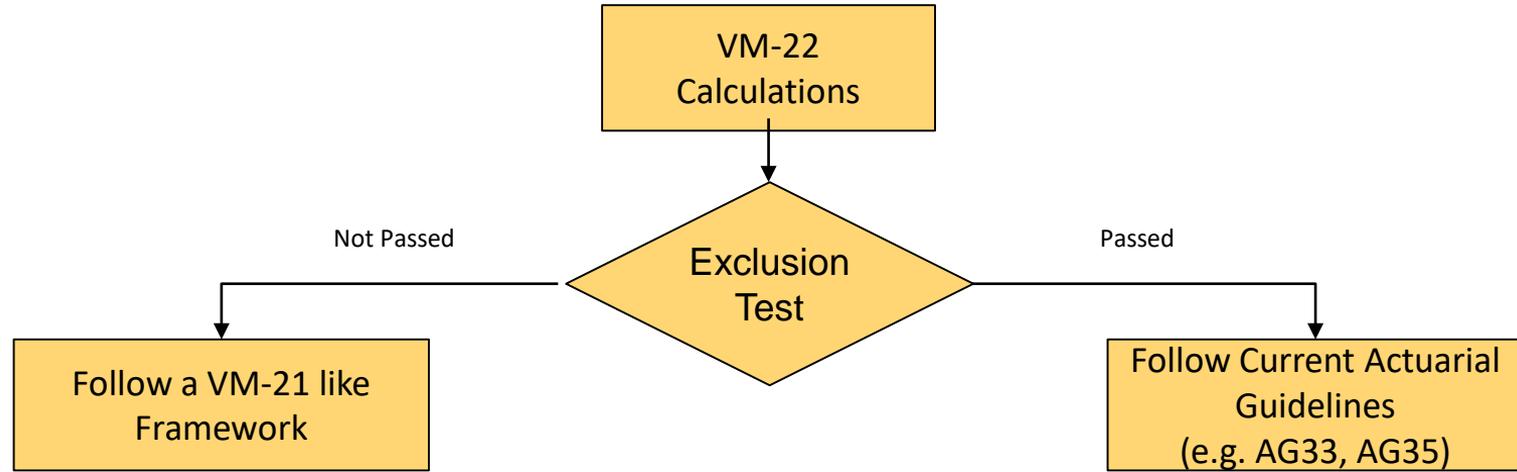
- An exclusion test will determine which set of calculations to follow
- The ARWG will focus on areas of VM-21 that need to be modified for non-variable annuities

VM-22 & Exclusion Test Objectives

- Right-size Fixed Annuity Reserves

- Higher risk designs to follow VM-21 "like" PBA.

- Exclude lower risk fixed annuities and single premium immediate annuities (SPIAs)

  - Designs that pass an exclusion test could continue to use current methods (such as AG 33, & AG 35)

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Exclusion Test Methodology

- Companies could continue to calculate formulaic Commissioners' Annuity Reserve Valuation Method (CARVM) reserves under the currently required methods.

- The Modeled Reserve would be optional for some contracts and only required for contracts that fail to meet the exclusion test criteria.

- Rules would need to be developed to minimize gaming of the optionality aspect of utilizing the Modeled Reserve.

- Asset adequacy testing would still be required.

Modeled Reserve Methodology

- Where appropriate, VM-22 would be consistent with the principles found in VM-20 and VM-21.
- Follow VM-21 rules for generating economic scenarios.
  - Use the Academy scenario generator
- Use the CTE 70 metric – the average of 30% of the largest GPVAD's (greatest present value of accumulated deficiencies)
  - The Cash Surrender Value will be the floor reserve for VM-22, where such exists.
  - Use a discount rate methodology consistent with VM-20 or VM-21

Modeled Reserve Methodology

- Hedge Modeling:
  - VM-22 needs to consider rules for hedging indexed crediting, guaranteed living benefit riders, disintermediation, or any other rate risks.

- Net Asset yields: Investment spread is a primary source of profit for fixed annuities (FAs) and fixed indexed annuities (FIAs).
  - Elevates the importance of using actual portfolio holdings.
  - VM-20 prescribed asset quality may be too conservative.

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Modeled Reserve Methodology

- [ ] Aggregation: include all business except plans that utilize the exclusion test.

- [ ] Reinsurance: calculations would include "pre" and "post" impact

- [ ] Tax Reserves: will follow tax reform rules.

- [ ] Reporting: requirements will be included in VM-31

Modeled Reserve Methodology

- Small Company Exemption: None – less risky products covered by the exclusion test.

- Transition: 3-year transition option similar to VM-20.

- Experience Reporting: Consistent with VM-50.

- Revenue sharing: TBD

- Allocation of Aggregate Reserve to individual contracts: TBD

Modeled Reserve Methodology

- Assumptions: Prudent estimates required
  - Use of company experience – TBD
  - Prescribed assumptions or margins – TBD
  - Look to VM-20 & VM-21 for guidance

Questions?

- John R. Miller, MAAA, FSA, Co-Chairperson
  Matthew Coleman, MAAA, FSA, Co-Chairperson
  Annuity Reserves Workgroup
  American Academy of Actuaries

- Ian Trepanier
  Life Policy Analyst
  American Academy of Actuaries
  Trepanier@actuary.org