

# LONGEVITY RISK TASK FORCE UPDATE (LRTF)



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# Status Update

- Field study has been conducted by the Academy Research Task Force (ARTF) to test the impact of longevity stresses on actual blocks of business
- LRTF will review results and develop proposed approach to implementing a longevity risk charge in RBC
- LRTF will also consider and propose approach for covariance of longevity and mortality risk



# Field Study

- Field study results
- were submitted to ARTF from 17 companies
  - Tested the impact to statutory reserves of shocks in base mortality rates and mortality improvement rates
  - Results were requested at a granular level to understand how drivers such as product type, valuation discount rate, policy duration, age and gender impact risk
- Aggregated results which protect company confidentiality are expected to be available to the LRTF by early August
- Expect to compare study results to those expected from a simple excel model for new issues as additional validation of results
  - There may be cases where mortality improvement stress was applied from the base table effective date rather than the valuation date which would overstate the magnitude of the intended stress
  - Expect a separate breakout of results that may have been applied differently than intended based on comments provided in the field study



# Implementation Philosophy

- Our proposal will be developed in line with the overall objective of RBC as being a tool for regulators to identify potentially weakly capitalized companies
  
- We are considering the balance of several competing objectives in proposing a longevity risk charge within RBC:
  - Accuracy and reasonability of the charge as a measure of longevity risk at the company level
  - Simplicity of the calculation
  - Clear linkage of the calculation to statutory financial statements
  - Consistency with the existing RBC framework



# Implementation Considerations

- We expect to express longevity risk as a factor to be applied to formula statutory reserves for products in scope
  - This may require a footnote to break out reserves for these products
  - An alternative base will be needed for longevity reinsurance
- We expect to use a 5% pretax (3.95% after tax) discount rate as the basis for the proposed charge to remain consistent with other factors within RBC
- We are considering several implementation approaches that offer a different balance between simplicity and accuracy
  - Approaches could have several factors that vary by key business characteristics such as the size of the business (as a proxy for the credibility of mortality experience data)



# Covariance

- The LRTF plans to develop a proposed approach to reflect the correlation between mortality and longevity risk within RBC
- The LRTF plans to limit the scope of this effort to mortality and longevity risk
  - The correlation between longevity and mortality is the most significant and we believe must be considered concurrent with the implementation of a longevity risk charge
  - This may result in the proposal of a nested covariance approach; i.e., a total C2 amount that reflects covariance between mortality and longevity
  - A broader review of covariance was considered within RBC to be out of scope, although this could be a future area of work
- The proposal will take into consideration the specific risks (i.e. basis/credibility, volatility, trend) in both development of a longevity risk charge as well as separate work underway reviewing mortality risk factors



# Next Steps

- Review Field Study results
- Develop proposed implementation approach
- Develop proposed covariance
- Continue to consider approach for additional products currently out of scope, including VA living benefits

} Targeting  
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# For more information

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