



AMERICAN ACADEMY *of* ACTUARIES

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March 29, 2021

Honorable Janet Buckner
Colorado State Capitol
200 E. Colfax Ave., Rm. 346
Denver, CO 80203

Dear Senator Buckner:

On behalf of the Life Underwriting and Risk Classification Work Group of the American Academy of Actuaries¹, I wish to provide comments on proposed Colorado Senate Bill 21-169. Although the bill covers all types of insurance, our comments will focus on the impact to individual life insurance. Our work group supports the goal of eliminating unfair discrimination in insurance.

Risk classification is core to many actuarial activities, such as the setting of rates, contributions, reserves, benefits, dividends, or experience refunds; the analysis or projection of quantitative or qualitative experience or results; underwriting actions; and developing assumptions. Under *Actuarial Standard of Practice (ASOP) No. 12, Risk Classification*, rates within a risk classification system are considered equitable if the differences in rates reflect material differences in expected cost for risk characteristics. The use of algorithms or alternative data sources does not remove from actuaries the responsibility of adhering to the principles of risk classification. Without robust risk classification, overall results from these activities may be either excessive or inadequate.

Limitations on the classification of risk can have implications on consumer costs and choice, and flexible underwriting programs are critical to maintaining a sustainable life insurance marketplace in response to changes in risk factors.

While we support the goal of ensuring that there is no unfair discrimination against protected classes, we observe that the broad language used in the bill may also sweep in the following unintended impacts:

¹ The American Academy of Actuaries is a 19,500-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.

1. The bill would increase life insurance premiums for females because it prohibits the use of sex-distinct rates. We note that life expectancy for females has been consistently higher than for males since mortality data has been collected. In 2018, the difference in life expectancy between females and males was 5.0 years.²
2. The bill would hinder life insurance reserve analysis because it prohibits the use of sex-distinct mortality in the calculation of reserves. In the interest of company solvency and the accuracy and reliability of company financial statements, sex-distinct mortality tables are prescribed for fully underwritten life insurance reserves. This is true even in the one state (Montana) that requires unisex rating and pricing for life insurance.
3. We note that some life insurance products offer benefits that are based on disability, such as waiver of premium or long-term care benefits. This bill would cause benefits that are based on disability to become much more costly or unavailable in their entirety, because it prohibits the use of disability in underwriting.

We recognize that policymakers must balance different considerations when making public policy decisions. The purpose of our letter is to highlight the actuarial and consumer impact of limiting underwriting flexibility. These impacts may affect the life insurance marketplace in unintended ways. Therefore, we would encourage taking a deliberative approach to facilitate a full understanding of all potential impacts before proceeding.

Our work group is available to support your efforts and provide analysis according to your needs as they relate to life insurance underwriting. We also refer you to the following documents that discuss some of these topics in more detail.

- [Comments to the National Council of Insurance Legislators Special Committee on Race in Insurance Underwriting](#) (December, 2020),
- Letter to the [Life Insurance and Annuities \(A\) Committee of the National Association of Insurance Commissioners](#) (NAIC),
- June 2017 Academy issue brief, [Life Insurance and Annuities: The Impacts of Regulatory Requirements on Consumer Cost and Consumer Choice](#)

If you have any questions or would like further dialogue on life insurance topics, please contact Khloe Greenwood, the Academy's life policy analyst, at greenwood@actuary.org. If you would like to discuss the Academy's input more generally across practice areas, please feel free to contact Craig Hanna (hanna@actuary.org), director of public policy.

Sincerely,

Sue Bartholf, MAAA, FSA
Chairperson, Life Underwriting and Risk Classification Work Group
American Academy of Actuaries

² [National Center for Health Statistics \(NCHS\), National Vital Statistics System](#), Mortality

CC:
Michael Conway, Colorado Insurance Commissioner