



CROSS-PRACTICE ISSUES

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Academy Presents at NAIC Fall National Meeting *Auto Insurance, PBR, and RBC Take Center Stage*

The Academy continued its dialog with insurance regulators on a wide variety of issues, including long-term care insurance, automobile insurance, risk-based capital, and principle-based reserving at the National Association of Insurance Commissioners (NAIC) 2015 Fall National Meeting held November 19-22 at National Harbor, outside of Washington, D.C.

Representatives of the Academy made numerous presentations to NAIC working groups on risk-based capital (RBC) formulas – part of the NAIC’s effort to examine and potentially update all three RBC formulas. Academy Senior Property/Casualty Fellow Jim MacGinnitie [presented](#) the Academy’s Property and Casualty RBC Committee’s work on the use of bond factors in the NAIC P&C RBC formula at the Property & Casualty (E) Risk-Based Capital (RBC) Working Group, Investment RBC (E) Working Group (IRBC), and Capital Adequacy (E) Task Force meetings. Tim Deno, chairperson of the Health Solvency Subcommittee, provided the IRBC Working Group and the Capital Adequacy (E) Task Force with an update on the evaluation of asset risk in the health risk-based capital (HRBC) formula. Academy Senior Life Fellow Nancy Bennett addressed the IRBC (E) Working Group on the methodology and assumptions in the working group’s report, “Model Construction and Development of RBC Factors for Fixed Income Securities for the NAIC’s Life Risk-Based Capital Formula.”

On professionalism matters, immediate Past President Mary D. Miller, ASB Chairperson Tricia Matson, and ABCD member John Purple, provided updates to the actuarial task force meetings on Actuarial Standards Board (ASB), Actuarial Board for Counseling and Discipline (ABCD), and qualification issues. Miller highlighted progress on the Academy’s development of an attestation form, supported by regulators, which will allow actuaries submitting Statements of Actuarial Opinion to document their qualifications under the U.S. Qualification Standards. The Academy is working toward a version of the form to be available by the end of the year.

The Academy also hosted a regulator-only breakfast meeting with the professionalism representatives, including Committee on Qualifications member, Tom Campbell.

Other reports and presentations made by Academy volunteers at the meeting included:

Casualty

- Academy Senior Property/Casualty Fellow Jim MacGinnitie [testified](#) at the Auto Insurance (C/D) Study Group public hearing on “The Pricing of Automobile Insurance.”
- At the P&C RBC Working Group meeting, Academy volunteers Lauren Cavanaugh and Dennis Franciskovich updated regulators on their ongoing work on the underwriting factors.
- Lisa Slotznick, chairperson of the Committee on Property and Liability Financial Reporting (COPLFR), provided an update to the Casualty Actuarial and Statistical Task Force (CASTF) on COPLFR’s upcoming activities, which included reports on the status of the P/C Seminar on Effective Loss Reserve Opinions, the annual P/C Loss Reserve Practice Note, and the P/C Loss Reserve Law Manual.

Health

- Shari Westerfield, the vice-chairperson of the Academy’s Health Practice Council, updated the Health Actuarial Task Force (HATF) on the Academy’s recent public policy work at the state, federal, and international levels. Westerfield noted that the Academy’s key priorities for 2016 include issues related to long-term care (LTC), Medicare, and implementation of the Affordable Care Act.
- Bob Beal and Doug Taylor, co-chairpersons of the Academy’s Individual Disability Tables Work Group, [presented](#) an updated incidence modifiers [report](#) for use in active life reserve calculations for employer-sponsored disability income policies along with a corresponding [memo](#) to HATF.
- Bob Yee, a member of the Academy’s Long-Term Care/Disability Insurance Committee, offered an update on developing a principle-based approach model and timeline for completion to the Long-Term Care Actuarial (B) Working Group. He also gave an update on the Academy’s Long-Term Care Credibility Monograph Work Group’s progress in drafting a document that addresses long-term care credibility.
- Brad Spenny, chairperson of the Academy’s Cancer Claims Cost Tables Work Group, [presented](#) to HATF the produced graduated valuation tables and sample reserve calculations.

Life

- Mary Bahna-Nolan, chairperson of the Joint American Academy of Actuaries Life Experience Committee and Society of Actuaries Preferred Mortality Oversight Group, provided an [update](#) on guaranteed issue, simplified issue, and preneed to the Life Actuarial Task Force (LATF).
- John Miller and Chris Olechowski, co-chairpersons of the Academy’s Annuity Reserves Work Group, provided a non-variable annuity PBR [update](#) to the LATF VM-22 Subgroup.
- Tom Berry, Chairperson of the Nonforfeiture Modernization Working Group, made a [presentation](#) on the gross premium nonforfeiture method to LATF.

These are just the highlights of Academy volunteers addressing NAIC committees and working groups on their current and emerging work streams as well as Academy-initiated projects.

Other items of note from the NAIC meeting:

Casualty

- Property & Casualty (C) Committee:
 - [Adopted](#) the revised Price Optimization White Paper, which is intended to help regulators make decisions about actions to take regarding any use of price optimization by insurers. The white paper will be considered for final adoption at the Spring National Meeting by the NAIC members at Plenary. The Academy's Price Optimization Task Force submitted a [comment letter](#) to the "C" Committee on the paper.
 - [Adopted](#) its charges for 2016 and plans to create a new working group to address issues related to travel and tourism insurance products.
- Auto Insurance (C/D) Study Group:
 - [Re-exposed](#) its risk classification survey for a period to end on Dec. 15, 2015.

Health

- [Health Actuarial \(B\) Task Force](#):
 - Adopted the report of the Medicare Supplement Refund Formula (B) Subgroup, which received answers from the Academy on questions regarding the Academy's Medicare Supplement Work Group's recommendations on modifications to the Medicare supplement refund formula. The task force will gather refund data from states to determine the impact of the recommended changes and discuss the results when available.
 - Adopted the report of the Health Care Reform Actuarial (B) Working Group, which requested that the Academy conduct a study of the federal ACA risk adjustment program for the individual and small group markets, with particular emphasis on the perceived adverse effect on smaller issuers. The State Rate Review (B) Subgroup of the working group will review any forthcoming regulations and guidance from the Center for Consumer Information and Insurance Oversight (CCIIO).
- Health Risk-Based Capital (E) Drafting Group
 - Will review historical RBC analysis and agreed to hold joint calls with the Academy's Health Solvency Subcommittee..
- Health Care Reform Regulatory Alternatives (B) Working Group:
 - Added a charge to its 2016 work plan to look at health care costs.

Life

- [Executive/Plenary Committee](#):
 - Adopted the amended plan to evaluate substantially similar terms and provisions in states' Standard Valuation Laws to determine the Valuation Manual operative date.
 - Adopted amendments to the Synthetic Guaranteed Investment Contracts Model Regulation that prescribe terms and conditions under which life insurers may issue group annuity contracts.
 - Adopted amendments to Actuarial Guideline XXXIII—Determining CARVM Reserves for Annuity Contracts with Elective Benefits (AG33).
 - Adopted the 2016 Generally Recognized Expense Table (GRET).
 - Adopted amendments to the Valuation Manual for the 2015 Valuation Basic Table.
- [Life Actuarial \(A\) Task Force](#):
 - Adopted the 2017 Commissioners Standard Ordinary (CSO) mortality table, which

includes coordination with the 2001 CSO table.

- Adopted the VM-20 annual default costs based on 2014 data.
- Exposed a proposal for removal of references to the term “seriatim reserve” to be replaced by the term “modeled reserve” where appropriate until Jan. 8, 2016.
- Exposed a proposal to define and clarify the term “modeled reserve” in VM-20 until Jan. 8, 2016.
- Principle-Based Reserving Implementation (EX) Task Force:
 - Adopted a [proposal](#) regarding disclosure of the RBC shortfall in the XXX/AXXX Reinsurance Framework, which will be sent to the Statutory Accounting Principles (E) Working Group.
 - Received a report on the PBR Experience Reporting Framework regarding the potential development and implementation of an NAIC experience data collection system.
- Contingent Deferred Annuity (A) Working Group:
 - Agreed to revisions and then [adopted](#) the document, “Guidance for the Financial Solvency and Market Conduct Regulation of Insurers Who Offer Contingent Deferred Annuities,” which is intended to serve as a reference for states in determining how to modify or apply laws and rules related to CDAs.
- PBR Review (Ex) Working Group:
 - [Exposed](#) the revised PBR Blanks and Blanks instructions for a comment period ending December 18, 2015.
- Variable Annuities Issues (E) Working Group:
 - [Exposed](#) a draft blanks proposal as part of the process to achieve some of the objectives of the Variable Annuity Framework for Change until Jan. 29, 2016.

RMFRC

- International Insurance Relations (G) Committee:
 - [Adopted](#) a recommendation to write a new group capital calculation technique using a risk-based capital aggregation approach.
 - [Adopted](#) the group capital calculation recommendation, which is intended to serve as a tool to help enhance U.S. state insurance regulators’ approach to group supervision and would be developed as a charge of the Financial Condition (E) Committee
- Reinsurance (E) Task Force:
 - [Exposed](#) five options to revise the Credit for Reinsurance Model Law (#785) with a comment deadline of Dec. 6.
- Statutory Accounting Principles (E) Working Group:
 - [Exposed](#) revisions to SSAP No. 107 – *Risk Sharing Provisions of the Affordable Care Act* – proposing disclosures to begin the first quarter 2016 on the federal risk corridors program. The comment period ends on Jan. 15, 2016.
 - [Re-exposed](#) agenda item on SSAP No. 55 – *Unpaid Claims, Losses, and Loss Adjustment Expenses* – to solicit more comments regarding the reporting of subrogation expenses. Notified CASTF of the exposure. Comments are due Feb. 5, 2016.

The NAIC Spring 2016 National Meeting is slated for April 3-6 in New Orleans.

If you have any questions regarding this *Academy Alert*, please contact Bill Rapp, assistant director of public policy (rapp@actuary.org).