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Post-NAIC Update Webinar

December 7, 2015



Agenda

- **Moderator**—Dave Neve, MAAA, FSA, CERA
 - Chairperson, American Academy of Actuaries Life Reserves Work Group

- **NAIC LATF/PBR Update**—Mike Boerner, MAAA, ASA
 - Director, Actuarial Office, Texas Department of Insurance
 - Chair, NAIC Life Actuarial (A) Task Force; PBR Review (EX) Working Group; Emerging Actuarial Issues (E) Working Group

- **Variable Annuity Issues**—Tom Campbell, MAAA, FSA, CERA
 - Chairperson, Academy AG 43/C3 Phase II Work Group

- **NAIC Risk-Based Capital Update**—Philip Barlow, MAAA, FSA
 - Associate Commissioner, District of Columbia, Department of Insurance, Banking and Securities
 - Chair, NAIC Life Risk-Based Capital (E) Working Group



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NAIC LATF/PBR Update

Mike Boerner, MAAA, ASA



TOPICS

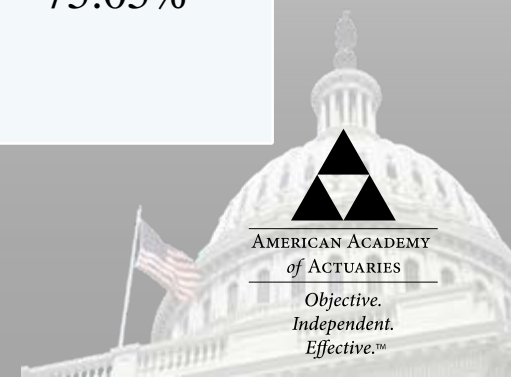
- State Adoption Status of PBR Enabling Law
- PBR & Related Activity:
 - Life Actuarial (A) Task Force (LATF)
 - PBR Review (EX) Working Group
 - PBR Implementation (EX) Task Force
 - AG48 & Reinsurance TF
- Other LATF Activity



Adoption Status (as of 11/12/15)

Source: American Council of Life Insurers (ACLI)

Legislative Session	#	States	Premium Threshold Percentage
2013-2015 Enacted	39	AZ, AR, CA, CO, CT, DE, FL, GA, HI, IL, IN, IA, KS, KY, LA, ME, MD, MI, MS, MO, MT, NE, NV, NH, NJ, NM, NC, ND, OH, OK, OR, RI, SD, TN, TX, VT, VA, WI, WV	71.78%
2015 Introduced	1	MA	3.27%
Total of enacted & introduced (Goal is 42 states & 75% premium)	40		75.05%



LATF PBR Activity at Fall Meeting

- Adopted VM Amendments that:
 - Provide use of the 2017 CSO for nonforfeiture.
 - ❑ Shall be the minimum standard for policies issued on and after 1/1/20. May be used for policies issued prior to 1/1/20 and on or after 1/1/17, otherwise the 2001 CSO is to be used for these policies.
 - ❑ Conditions provided for use of these CSO tables. Preferred version of these tables is not to be used for minimum nonforfeiture.
 - Provide use of the 2017 CSO for valuation.
 - ❑ Shall be the minimum standard for policies issued on and after 1/1/20. May be used for policies issued prior to 1/1/20 and on or after 1/1/17, otherwise the 2001 CSO is the minimum standard for valuation. Use of these CSO tables is subject to conditions.
 - Implement use of VM-20 annual default costs based on 2014 data.



LATF VM Exposures

- Exposed for comment seven proposed VM Amendments:
 - Three ACLI amendments exposed for comment thru 1/8/16:
 - ❑ VM-31 proposal—substitutes the PBR blanks supplement expected to be completed in 2016 for the tables currently provided in VM-31. Will be discussed on a call with two other VM-31 amendments previously submitted.
 - ❑ VM-31 proposal—to ensure that a company who performs exclusion tests and no other PBR reserve calculations documents that testing.
 - ❑ VM-20, Section 9 and Appendix 2 proposal—clarifies direction for the default tables given the addition of commercial mortgages to the table of default rates.



LATF VM Exposures

- Exposed for comment seven proposed VM Amendments (continued):
 - Two American Academy of Actuaries (Academy) amendments exposed for comment thru 1/8/15:
 - ❑ Proposal to remove references to seriatim for the deterministic reserve (DR) given the DR was modified previously to be calculated on an aggregate basis.
 - ❑ Proposal to define “modeled reserve” and replace “minimum reserve” with “modeled reserve” where appropriate.



LATF VM Exposures

- Exposed for comment seven VM Amendments (continued):
 - Two ACLI amendments exposed for comment thru 1/15/16:
 - ❑ VM-20, Section 6—clarifies requirements in response to questions regarding the deterministic reserve exclusion test.
 - ❑ A proposal intended to provide edits and clarification relating to term and ULSG business to which NPR applies. This proposal includes an edit to the definition of “secondary guarantee” to be for more than five years.
- ACLI is working on additional NPR analysis to compare NPR using the 2017 CSO table with Deterministic reserves. This effort will be discussed on an upcoming LATF call where requests may be made for additional testing results under certain assumptions.

LATF VM-22 Subgroup

(Chair, Felix Schirripa, NJ)

- The VM-22 subgroup is continuing efforts to develop a PBR type of reserve methodology for non-variable annuities.
- The subgroup views the statutory reserve as the maximum of a floor reserve and a modeled reserve for policies that fail an exclusion test.
- Key initiatives include a simplified valuation of annuities with GLIBs and the development of sections for the new requirements that includes work of the Academy ARWG and consideration of work from the Academy SVL Interest Rate Modernization Work Group.
- The Academy ARWG noted it is no longer pursuing the RSM for the modeled reserve at this time.



LATF Website: Current VM & NPR DEC

- LATF website now includes the latest NAIC adopted Valuation Manual that includes highlighted edits that are not yet adopted by the NAIC Exec/Plenary but have been adopted by LATF or adopted by both LATF and the Life Insurance and Annuities (A) Committee.
- LATF website currently contains a link to the NPR Durable Education Component (DEC) that anyone can use free of charge.
- http://www.naic.org/committees_a_latf.htm



PBR Review (EX) Working Group

- Fall meeting activity included:
 - Third exposure of the PBR Blanks reporting. Exposed for comment to 1/8/16. NAIC support working to draft a section in response to comment that provides information regarding exemption testing. This would be discussed and considered for exposure after 1/8/16.
 - Second exposure of PBR-related edits to the Financial Analysis Handbook.
 - Future drafting efforts will consider development of a section to the Financial Examiners Handbook regarding PBR with reference to and development of more detailed PBR review considerations and interview questions.
 - Regarding model review, NAIC staff reported on planned use of modeling software to support regulators. Also, the Academy has set up a PBR Model Governance WG that may provide considerations that regulators can use in the review of model risk.

PBR Review (EX) Working Group

PBR 2016 Pilot Project

- Recruiting underway with domestic states for 10+ companies.
- Each Company to value product(s) under PBR (Term/ULSG) YE 2015
- Companies will also complete PBR Blanks Supplement & VM-31 using the versions expected to be updated by the Spring 2016 NAIC meeting.
- PBR Review (EX) WG and the domestic state to hold Regulator Only calls to discuss review of VM-31 Reports.
- LATF/NAIC/Academy to respond to any questions, clarifications or issues during Pilot
- Company work completed (March – June 2016)
- Regulator Evaluation (July – November 2016)
- Pilot Results presented at Fall National Meeting (December 2016)
- Focus is on the process vs. the numbers. Companies & regulators will both benefit. Pilot may identify changes/clarifications needed prior to the expected 1/1/17 operative date.



PBR Implementation (EX) Task Force

- Adopted an amended plan to evaluate “substantially similar” terms and provisions in states’ Standard Valuation Laws to determine the VM operative date.
- Received a report on the PBR Experience Reporting Framework regarding the potential development and implementation of an NAIC experience data collection system.
- Adopted a proposal regarding disclosure of the RBC shortfall in the XXX/AXXX Reinsurance Framework. Phil Barlow will discuss further in his portion of this webinar.



PBR Related: AG48 & Credit for Reinsurance

- At the fall meeting the Reinsurance (E) Task Force exposed thru 12/6/15 five options for Model 785. The five options include the previously exposed options 1 thru 3 with technical edits provided by NAIC staff. The fourth option is from New York LIC to revise previously exposed option 2 and the fifth option is from ACLI which also revises previously exposed option 2.
- The five exposed options are found on the Task Force website:

http://www.naic.org/committees_e_reinsurance.htm

- The Task Force has a call on 12/9 to discuss the options & any comments.
- The Task Force also discussed comments received on the proposed Model Regulation that drew significantly from AG48 for the Actuarial Method. The Task Force directed NAIC staff and the Drafting Group to consider the discussion and make appropriate revisions to the Model Regulation to address several specified items including the Actuarial Method.



PBR Related: AG48 & Credit for Reinsurance (cont'd)

- LATF plans to make appropriate adjustments to AG48 in 2016 given a number of Valuation Manual amendments adopted to date that include the 2017 CSO mortality amendments that affect the NPR.
- LATF will also continue to monitor the development of the Model Regulation to consider any additional adjustments to AG48 to provide for any appropriate alignment between AG48 and the Model Regulation.



LATF Adoptions Prior to the Fall Meeting

- Model 695 (Synthetic GIC model regulation) edits adopted earlier by LATF were adopted at the fall meeting by the NAIC Exec/Plenary. The Statutory Accounting Principles (E) Working Group (SAPWG) exposed these edits until Dec. 8 with a call planned on Dec. 10 to go into the Accounting Practices and Procedures Manual (APPM) and be effective beginning in 2016.
- The NAIC Exec/Plenary also adopted AG33 edits at the fall meeting that were previously adopted by LATF. In short, these edits specify that non-mortality non-elective incidence rates should be used as appropriate and provide an example regarding not using non-mortality non-elective waiver of surrender charge incidence rates when there are no longer surrender charges nor a cash surrender value. These edits are effective for this year end and are incorporated in the APPM as provided on the SAPWG website under “Accounting Practices and Procedures Manual Updates.”



Other LATF Activity

Mary Bahna-Nolan, SOA/Academy Joint Project Oversight Group (POG), provided an update on development of simplified issue, guaranteed issue, and preneed mortality tables. Highlights for this status:

- Guaranteed issue (GI) mortality table development is ahead of the simplified issue mortality development. The POG has observed no GI mortality improvement and may recommend no VM GI mortality improvement. Some ages need more data where the POG will try to draw from preneed mortality.
- Simplified issue (SI) lags behind the GI work. Initial estimates show loading of 8% needed to cover 70% of companies & 16% for 80% of companies. A recent change in SI underwriting complicates the SI mortality work.
- Preneed mortality work is furthest along compared to GI & SI. Next steps include finalizing target loading and developing gender specific tables.
- Significant LATF input needed in the near future on these tables.



Other LATF Activity

- IUL Illustration Subgroup (Chair, Fred Andersen, MN)
- C3 Phase II/AG43 (E/A) Subgroup (Chair, Pete Weber, OH)
- Contingent Deferred Annuity Subgroup (Chair, Tomasz Serbinowski, UT)
- Academy Nonforfeiture Modernization Working Group
- Actuarial Streamlining



PBR Recap

Item	Status Comment
Valuation Manual	Valuation mortality in place for VM & non-VM requirements. NFF mortality & conditions also in place. Targeted completion prior to Spring 2016 for NPR review & any adjustments.
Reporting in Blanks	3 rd exposure. Targeted completion by Spring 2016.
Support for State Review of PBR	Financial Analysis Handbook Procedures – 2 nd Exposure. Financial Examiner Handbook Procedures – WIP. Valuation Analysis Working Group Procedures – Adopted by WG.
Coordination with APPM	Drafting group working on changes to coordinate with the Valuation Manual. To be proposed by the Spring 2016 NAIC meeting.
PBR 2016 Pilot Project	Company deliverables to be completed by July 2016 with regulator review during following 3 months. Provides benefits for both companies & regulators with ID of any adjustments prior to 1/1/17.
Training	Includes 2016 Pilot Project & DEC WIP.





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Variable Annuity Issues

Thomas A. Campbell, MAAA, FSA, CERA



Variable Annuity Issues

- NAIC Variable Annuity Issues Working Group
 - Study and address regulatory issues resulting in VA captives
 - Hired Oliver Wyman to support the project
- September 10 Chicago Meeting
 - Use of captives prompted by “unprecedented complexity” introduced by Actuarial Guideline 43 and C3 Phase II
 - VA captives are generally being formed to address inappropriate surplus volatility rather than to increase surplus or reduce statutory reserves
 - Companies report common issues, but different prioritization

www.naic.org/committees_e_va_issues_wg.htm

Variable Annuity Issues

- Issues with Actuarial Guideline 43 (AG 43) and C3 Phase II are not new
 - NAIC C3 Phase II/AG 43 (E/A) Subgroup
 - Academy AG 43/C3 Phase II Work Group
 - VA writing companies, including June 2010 Report from Oliver Wyman
- Use of captives have increased the priority of these issues within the NAIC
 - This has created a sense of urgency and an aggressive timeline among regulators



Variable Annuities Framework for Change

- Adopted by NAIC in October, with the goal to:
 - Encourage stronger risk management
 - Remove the need for current and future VA captives arrangements
- Quantitative Impact Study (QIS)
 - QIS will help assess the impact of potential statutory changes (e.g., AG 43 and C3 Phase II)
 - Other identified solutions may be considered
 - Regulators are the final decision makers on changes
 - QIS will run February-July, 2016; with a 1/1/2017 target for final updates
 - Changes **will apply to all inforce** VA business



NAIC Framework

- Changes considered for the QIS may include:
 - Create market-informed calibration criteria for interest rate, foreign exchange rate, and volatility paths
 - Update Standard Scenario (SS) contractholder behavior assumptions
 - Make the SS an aggregate calculation for reserves
 - Update modeling of hedging in CTE 70 calculation
 - Increase regulator-only disclosure
- C3 Phase II changes considered for the QIS may also include:
 - Eliminate the standard scenario component
 - Make C3 charge equal to the difference between a CTE “high” and a CTE “low” calculations and use fewer, better-aligned calculations
- A feedback loop to review industry data will also be considered
- More guidance on volatility-control funds (not part of QIS)

NAIC Framework

- Other changes considered may include:
 - Reduce the accounting mismatch that exists between the value of the hedge and the value of the hedged item (the variable annuity liability) in SSAP No. 86
 - Increase public disclosure on VA risks in notes to the financial statements
 - Remove or increase derivative limits in investment statutes for VA hedges
 - Permit all or part of the Deferred Tax Asset (DTA) as an admitted asset, based on a recoverability test



Academy WG October 16 Comment Letter

- Ideas being discussed should be tested on simple products before QIS
- Modify the treatment of hedging in the requirements to address counterintuitive results
 - Eliminate the Clearly Defined Hedging Strategy (CDHS) concept
 - Require hedging strategies to be modeled, with disclosure, margins, and guidance
- Evaluate need for more dynamic calibration criteria for equity scenarios
- Add calibration criteria for interest rate scenario generators, considering 2008 recommendation of the Academy's Economic Scenario Work Group
- Remove SS from both AG 43 and C3P2 as a required minimum, but use as a regulatory tool
- Consider how admissibility of the DTA impacts results
- Evaluate the need to modify SSAP 86
- Consider a cash-flow framework with similarities to modelling approach in VM-20 (e.g., Working Reserve of zero)

www.actuary.org/files/AG43_C3P2_Letter_VAIWG_10162015.pdf

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Exposure for Annual Statement Disclosures

- Disclose:
 - Liabilities for variable and fixed annuities (general vs. separate accounts)
 - The average discount rate (IRR) used to derive the liabilities
 - The average assumed lapse rate for the liabilities
 - The average benefit utilization period for the liabilities
 - The market and book value for the liabilities
 - Information on material assumptions
- Provide the estimated dollar impact of the following factors:
 - 100 basis point drop and 100 basis point spike in interest rates
 - 10% drop and 10% spike in lapse rates
 - Increase/decrease benefit utilization rates by 20%
 - Increase/decrease volatility assumption for equities by 20%
- Under the same changes, disclose:
 - Economic offset from the use of hedges (based upon market value)
 - Estimated pre-tax income, taxes, and income after taxes

http://www.naic.org/documents/committees_e_va_issues_wg_exposure_var_annuities_blanks_prop.pdf



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NAIC Risk-Based Capital Update

Philip Barlow, MAAA, FSA



Life Risk-Based Capital (E) Working Group

- Life Risk-Based Capital Working Group (LRBCWG) November 15 Meeting
 - Stress Testing (E) Subgroup Update
 - Variable Annuities Issues Working Group (VAIWG) Update
 - Longevity Risk Update
 - XXX/AXXX Reinsurance Update
 - 2015 Disclosure
 - Refinements to address
 - 2015 Result Analysis



Stress Testing Update

- The Stress Testing (E) Subgroup is now chaired by Kerry Krantz from Florida
- The Subgroup charges are:
 - Evaluate RBC in light of PBR. Consider changes to RBC needed because of the changes in reserve values, including “right sizing” of reserves, margins in the reserves, any expected increase in reserve volatility, and the overall desired level of solvency measurement and other issues.—
Essential
 - Consider a total balance sheet approach (e.g., total asset requirement (TAR) type calculation and then subtracting out the PBR reserves) and application of stress scenarios. These charges should include appropriate consideration of international core principles.—Important
- The Subgroup plans to have a brainstorming call to identify how to address the charges, but the call has not yet been scheduled



VAIWG Update

- LRBCWG heard a presentation and had a discussion with NAIC staff support for VAIWG
 - The primary focus was understanding how VAIWG work will impact the workflow of LRBCWG
 - The plan is to have the C3 Phase II/AG 43 Subgroup turn the recommendations from Oliver Wyman (OW) into proposed RBC (and reserve) changes
- After the NAIC meeting, the LRBCWG held a public call with OW and will have another call with OW in January after the Quantitative Impact Study plan is developed



Longevity Risk Update

- Longevity Risk Subgroup (New Jersey and New York)
- Subgroup charge is, “Consider changes to the life RBC formula to address longevity risk”
- Subgroup provided a PowerPoint for the NAIC meeting, but will make presentation on December 10 LRBCWG call
- Subgroup target date is July to complete the charge
- Subgroup will reach out to the Academy and the SOA to see if assistance is available to address the charge



Longevity Risk Update

Major points from the subgroup presentation:

- Longevity risk is the risk that an insurer's obligations increase due to increases in life expectancy
- Mortality improvements have been sizable
 - Over 25000 mortality tables at <http://mort.soa.org>
 - Average annual improvements of 1.4%
- RBC formula has no charge for longevity risk
 - Zero charge was reasonable in the 70s & 80s
 - Risk was immaterial (due to products and interest rates)
- Continuing with a zero longevity charge within RBC may not be prudent
 - Increase in the products marketed with material longevity risk
 - Pension risk transfers, income annuities, deferred annuities, LTC, GLIBs, CDAs, etc.
 - Other jurisdictions charge for longevity risk (e.g., UK)



XXX/AXXX Reinsurance Update

- 2015 Year End Changes
 - Principle-Based Reserves Implementation (EX) Task Force adopted 2015 disclosure proposal and referred it to the Statutory Accounting Principles (E) Working Group with a request for a 2015 implementation date
- Issues with XXX/AXXX Consolidated Exhibit
 - Determine whether asset charges for the forms of “other security” used by insurers under the XXX/AXXX Reinsurance Model Regulation should be developed or otherwise accounted for in the RBC Shortfall calculation and address deferred issues with consolidated presentation
 - Will be discussed on December 10 LRBCWG conference call
- Analysis of 2015 XXX/AXXX Results
 - Initial discussion of how and when to do analysis of 2015 results to consider whether changes need to be made
 - There should be limited results for 2015, so LRBCWG may focus on the primary asset requirement since this is a new calculation



Investment Risk-Based Capital (E) Working Group

- Investment Risk-Based Capital (E) Working Group Meeting
 - Heard presentations from both the P&C RBCWG and Health RBCWG on the development of investment RBC factors for those formulas
 - Both are working on factors, but are waiting for resolution of life insurance bond factor issues before working on those
 - Discussed the benefits and costs of increasing the granularity of the bond base factors
 - The majority of Working Group members agreed that increasing the number of factors is warranted to appropriately reflect investment risk
 - Changes should be implemented gradually over a period of time



Investment Risk-Based Capital (E) Working Group

- Discussed the concept of a different RBC factor for non-corporate fixed-income assets such as municipal and sovereign bonds
 - ACLI and AFLAC are preparing data for the Working Group on, respectively, municipal bonds and sovereign bonds
- Academy gave initial verbal response to some of the comments raised in response to the Bond Factor Report:
 - Methodology
 - Discount rate
 - Risk premium offset
 - Greatest loss



Valuation of Securities (E) Task Force

VOSTF reported the Class 1 list to be eliminated in 2016

■ SEC rules changed so that prime institutional funds (which include money market funds) may no longer use stable net asset value (NAV) after October 16, 2016

■ Under SSAP 30 all shares of money market funds are reported as common stock and use RBC factors for common stock

- Exception - The Class 1 list identifies SVO-filed money market funds with stable NAV which receive bond-like treatment for RBC

■ After Class 1 list is eliminated, money market funds will get common stock RBC factors unless they qualify as bonds under a basis other than stable NAV



Post-NAIC Update Webinar Q&A

For more information on the Fall NAIC Meeting, see the
Academy's Post-NAIC Alert:

<https://cv.actuary.org/members/alerts/pdf/2015/2015-CP-18.pdf>

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