LIFE POST-NAIC UPDATE WEBINAR

Spring 2017

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APRIL 20, 2017

Agenda

- Moderator—Dave Neve, MAAA, FSA, CERA
  - Chairperson, Academy's 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
- 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
- Reinsurance Developments—Sheldon Summers, MAAA, FSA
  - Academy's Life Reinsurance Work Group

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PBR Boot Camp

- May 22-24 in Orlando
- 2 ½ intense days covering what you need to know on PBR; includes lectures, case studies, and small group discussions
- Will discuss all the latest information on PBR
- Excellent faculty, including regulators and industry leaders in PBR

http://www.actuary.org/content/pbr-boot-camp-basic-training-and-beyond-principle-based-reserving-implementation-2017

NAIC Update Spring 2017

Mike Boerner, MAAA, ASA
Actuarial Office Director
Texas Department of Insurance

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Topics

- PBR, Valuation Manual, & Other Activity:
  - Current State PBR Adoption Status
  - Valuation Manual Amendments
  - VM Related / Other Requirements
  - 2016 PBR Pilot
  - Experience Reporting
  - Regulator PBR Review & Support
  - VM-25 & Actuarial Guideline LTC

State Adoption Status as of April 17, 2017

Legislative Session	#	States	% Premium Threshold
2013 - 4/17/17 Enacted	47	AL, AZ, AR, CA, CO, CT, DE, FL, GA, HI, IL, IN, IA, ID, KS, KY, LA, ME, MD, MI, MN, MS, MO, MT, NE, NV, NH, NJ, NM, NC, ND, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VT, VA, WA, WI, WV, WY	85.85%
2017 Introduced	1	MA	3.27%
Total enacted, introduced (Goal: 42 states & 75% premium)	48		89.12%

Source : NAIC

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Valuation Manual Amendments

- LATF adoptions include:
  - Amendment to move tables from VM-20, Appendix 2 to the LATF webpage.
  - Updated SOA link that provides for PBR mortality improvement.
  - New VM-22 section of the Valuation Manual. VM-22 provides the maximum valuation interest rate for policies, contracts, or supplementary contracts within the VM-22 Scope issued after Dec. 31, 2017.

VM-22 Maximum Valuation Interest Rates

Scope: Group, individual, directly written or assumed, including both life contingent and term certain only contracts

- Immediate annuity contracts;
- Deferred income annuity contracts;
- Structured settlements in payout or deferred status;
- Payout annuities from settlement options or annuitizations from other contracts
- Supplementary contracts; and
- Contracts containing other similar fixed income payment streams, including those attributable to contingent deferred annuities and guaranteed lifetime income benefits once the underlying contract funds are exhausted.

VM-22 Maximum Valuation Interest Rates

Requirements specify a statutory maximum valuation interest rate, calculated as follows:

- Determine the Valuation Rate Bucket (A, B, C, or D), a function of issue age and length of Reference Period, which is the number of years from Premium Determination Date to the last non-life contingent payment (i.e., the term certain period).
- Calculate the Reference Rate (R) which is the weighted average of the Quarterly Treasury Rates using the weights in Table 3 for the applicable Valuation Rate Bucket.
- Calculate the Spread (S) which is the weighted average of the Expected Spreads using the weights in Table 4 for the applicable Valuation Rate Bucket. The Expected Spreads are 4 numbers (one for each number of years in Table 4) that are the weighted average using the Portfolio Credit Quality Distribution percentages as weights applied to the spreads by asset quality in VM-20, Table F, for the WAL in Table F corresponding to each number of years in Table 4.

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VM-22 Maximum Valuation Interest Rates

Calculation requirements continued:

- Calculate the Default Cost (D) which is the weighted average of the Expected Default Costs using the weights in Table 5 for the applicable Valuation Rate Bucket. The Expected Default Costs are 3 numbers (one for each number of years in Table 5) which are the weighted average using the Portfolio Credit Quality Distribution percentages as weights applied to the default percentages by asset quality in VM-20, Table A, for the WAL in Table F corresponding to each number of years in Table 5.
- Calculate the maximum valuation interest rate as R+S-D-E where E is .25%
  - Calculate the maximum valuation interest rate quarterly.
  - All weights are subject to change based on LATF review to better reflect changes in the shape of the yield curve and/or the level of market interest rates.
  - Rates will be posted on NAIC website (under construction).

VM-22 Application of Valuation Interest Rates

- Non-jumbo Contracts use the quarterly maximum valuation interest rate.
- Jumbo Contracts use a maximum valuation interest rate, calculated daily, where such daily rate is calculated as the applicable quarterly rate plus the Daily Corporate Rate less the Average Daily Corporate Rate. See example in exposure.
- The requirements of VM-22 apply to policies, contracts, or supplementary contracts within the VM-22 Scope issued after Dec. 31, 2017.
- The new rates do not apply to disability income policies.
- The new rates are still considered "maximum" rates and there will be times when the use of a lower rate is both prudent and appropriate.

VM-22 Maximum Valuation Interest Rates: Effective Date

- LATF adopted at the NAIC Spring 2017 meeting.
- The Life Insurance and Annuities (A) Committee will consider adoption prior to the NAIC Summer 2017 meeting. If adopted, the NAIC Exec/Plenary will consider adoption at the summer meeting.
- If the NAIC Exec/Plenary adopts at the summer meeting then VM-22 will apply beginning Jan 1, 2018.

Valuation Manual Amendments

- LATF exposures include:
  - Guaranteed Issue (GI) mortality tables for reserves, GI report, & GI definition. Also includes request for comments regarding use for nonforfeiture and possible use of applicable VM-A and VM-C reserve methodology.
  - VM-30 amendment to clarify documentation requirements for assumptions related to mortality
  - VM Section I amendment to revise the requirement for LATF exposure and adoption of the asset default costs and asset spreads
  - VM-51 amendments to be consistent with New York & Kansas 2017 data call
  - Amendments to the Companywide Exemption

Companywide Exemption

LATF exposed to April 14, 2017 edits to this exemption which provide:

- Removal of the RBC 450% requirement for companies with less than $50 million of ordinary life premium as defined in this exemption.
- Commissioner discretion to allow the exemption to continue for one more year if exemption was passed in the prior year submission but not in the current year only due to not meeting the RBC 450% requirement.
- Changes and clarification that the ULSG exemption criteria only allow exemption if the company has ULSG policies issued, either directly or assumed, on and after Jan. 1, 2020, and through the rest of the calendar year that meet the definition of a non-material ULSG.

Companywide Exemption (cont.)

LATF exposed to April 14, 2017 edits to this exemption which provide: Removal of preneed from the ordinary life premium volume.

- Removal of any reserve amount from the ordinary life premium volume due to reinsurance assumed where the reserve transferred due to the reinsurance assumed was reported in Exhibit 1 as ordinary life premium.
- Clarification that the exemption applies to life insurance policies issued in the current calendar year that would otherwise be subject to VM-20.

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VM Related / Other Requirements

- Adopted revisions to AG38, 8D, & 8E.
- Forwarded to the Blanks WG revisions for the life & fraternal annual statement actuarial opinion instructions
- Model 805 drafting group recommendations & next steps
- Update on Simplified Issue & on Accelerated Underwriting
- Possible VM section on moderately adverse assumptions

2016 PBR Pilot

- Assigned to the NAIC PBR Review (EX) Working Group by the PBR Implementation (EX) Task Force (PBRITF) to conduct a PBR Pilot Project in 2016.
- 11 participating companies (names are confidential)
- Commenced in mid-April 2016 for four months.
- Dec. 31, 2015 valuation date assuming PBR in place with 5 years of issue requested.
- Deliverables:
  1. Application of VM-20 (using current term NPR)
  2. Confidential VM-31 PBR report (consolidated version on LATF website)
  3. PBR Blanks Supplement (as adopted by the PBR Review (EX) Working Group)
- Regulators reviewed each confidential VM-31 PBR Report with domestic state & NAIC support and submitted public report to the PBRITF co-chairs on Jan. 19, 2017.
- Report is on the PBR Implementation (EX) Task Force NAIC website.

Statistics: 2016 PBR Pilot

- Of the 11 participating companies 10 tested level term products and seven tested ULSG products. Table below summarizes a few statistics where reserves are the reported reserve in the PBR Supplement on a pre-reinsurance basis:

Product	# Policies	Face Amt. (approx.)	Reserve (approx.)	Avg. Pol. Size	Avg. RV per Pol.	Avg. RV per 1000
Term	1,202,860	794 Bil.	1.2 Bil.	660,721	1,044	1.58
ULSG	74,322	34 Bil.	2.4 Bil.	462,345	31,937	69.08
Total	1,277,182	828 Bil.	3.6 Bil.	649,177	2,842	4.38

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Some Key Findings & Observations

- Structure of each PBR Actuarial Report was fairly consistent with the order of the VM-31 requirements that helped with regulator review.
- Level of detail varied considerably where no single report was believed fully complete. Less detailed reports generated more regulator follow-up questions.
- A few cases were discussed where the deterministic reserve was negative or the post-reinsurance reserve was greater than the pre-reinsurance reserve.
- Regulators noted the need for more guidance in the VM regarding PBR mortality. The LATF VM Review Drafting Group will provide recommendations to LATF.
- Companies commented during the pilot and in response to a pilot survey regarding duplication of requirements in VM-31. In essence it was difficult to determine where to draw the line in level of detail for similar requirements in the VM-31 overview versus the more detailed portion of VM-31.

Experience Reporting

- In early 2016 the NAIC Executive Committee directed NAIC Senior Management to explore an IT solution allowing companies to submit experience data as required by Section 13 of the Standard Valuation Law.
- NAIC IT developed an On-Line Web-Based Experience Data Submission Application which is currently in a Beta-test environment.
- This application will allow a company to securely log into the application and upload and submit their experience data records.

Experience Reporting (cont.)

- The data is scrubbed in real time and, when completed, will display statistics and counts on the number of record exceptions and allow a company to drill down into the exceptions to determine whether to proceed, reject or correct the submission.
- The data is fully encrypted once the data is uploaded and retained. Encryption continues whether the data is at rest or on the move.
- NAIC entered into an agreement with the state of Kansas to test this application. Both Kansas and New York have been collecting company experience; Kansas directed companies to submit their data to the NAIC. This data is being used to beta test the application.

Experience Reporting (cont.)

- The NAIC provided a demonstration of this application to the ACLI in August 2016 and plans to invite the ACLI back for a second update on this project.
- In January 2017 the SOA was provided a demonstration of the Business Intelligence Tool (Tableau) used for analysis and reporting and asked the SOA to evaluate this tool as it could be used to aggregate and transfer the data.
- In February 2017, members of the PBR Review (EX) Working Group and LATF were provided a demonstration of the application and the Business Intelligence tool.
- NAIC legal staff is working on draft edits to VM-50 to document how this new data collection process may work.

Regulator PBR Review & Support

- Edits to Financial Analysis Handbook and Financial Examiners Handbook for 2018
- NAIC standard portfolio model
- Training: PBR modules & boot camps
- Valuation Analysis (E) Working Group

Regulator PBR Review Support

- Valuation Analysis (E) Working Group (VAWG) Members:

#	VAWG Member	ST	#	VAWG Member	ST
1	Mike Boerner, Chair	TX	9	Felix Schirripa	NJ
2	Fred Andersen, Vice-Chair	MN	10	Bill Carmello	NY
3	Pete Weber	OH	11	Tomasz Serbinowski	UT
4	Perry Kupferman	CA	12	Bruce Sartain	IL
5	Jim Jakielo	CT	13	John Rehagen	MO
6	Kerry Krantz	FL	14	Judy Weaver	MI
7	Mike Yanacheak	IA	15	Doug Stolte	VA
8	Rhonda Ahrens	NE	16	Rebecca Easland	WI

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VM-25 – Health Reserves

- VM-25 for the 2017 Valuation Manual uses applicable requirements in the APPM A-010 and applicable actuarial guidelines where several are referenced in VM-25. This provides health reserve requirements for policies issued on and after Jan. 1, 2017.
- States will have to use their own rulemaking or other process to apply VM-25 claim reserve requirements as appropriate for claims incurred on and after Jan. 1, 2017 under policies issued prior to Jan. 1, 2017.
- VM-25 amendment exposed to April 24, 2017 preserves the valuation interest rate for claim reserves for policies not requiring contract reserves. Language for this valuation rate was explicitly provided versus referring to the interest rate for single premium immediate annuities as this was revised in the Valuation Manual's new VM-22.

Actuarial Guideline LTC

- This guideline was exposed for comment to May 11.
- The guideline requires a stand alone asset adequacy specific to all inforce LTC business with over 10,000 inforce lives as of the valuation date.
- The asset adequacy analysis can be in the form of cash flow testing or can be a gross premium valuation.
- If a gross premium valuation is used, then any additional reserves needed must be set up.
- If cash flow testing is used, then any reserve deficiency may be aggregated with a reserve sufficiency from all significant non-LTC business that is also cash flow tested.

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CAPITAL UPDATE

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DISTRICT OF COLUMBIA DEPARTMENT OF INSURANCE, SECURITIES AND BANKING

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Agenda

- Life Risk-Based Capital Working Group
- Investment Risk-Based Capital Working Group
- Capital Adequacy Task Force
- Group Capital Calculation Working Group

Life Risk-Based Capital Working Group

- On conference calls prior to the meeting, the LRBCWG:
  - adopted a change to the life RBC formula to divide the TAC by the LRBC ACL and include the RBC ratio in the formula.
  - exposed primary security shortfall instructional change and proposal from ACLI to adjust the LRBC charges for Federal Home Loan Bank (FHLB) advances
- Both exposure periods run until April 24, although both were discussed at the WG meeting
- Both exposures are instructional changes and need to be adopted by June 30, 2017 to be included in the 2017 RBC formula

Life Risk-Based Capital Working Group

- Received an update from the Academy's Longevity Risk Task Force (LRTF) activities:
  - focus is on RBC risk charge on annuity products
  - LRTF believes statutory reserves sufficiently cover longevity risk via asset adequacy analysis
  - LRTF will develop a methodology to calculate a longevity risk charge for the LRBC formula; current approach is to develop a factor(s) to be applied to statutory reserves based on the difference between reported reserves and reserves under a longevity stressed scenario
  - NAIC Joint LATF/LRBC Subgroup (LRSG) will determine statistical safety level for the charge
- LRSG will discuss this information on their April 25 call

Life Risked-Based Capital Working Group

- Discussed security shortfall instructional change
  - the proposed changes are needed due to the adoption of the NAIC Term and Universal Life Insurance Reserve Financing Model Regulation
  - the NAIC Blanks WG is currently considering a proposal that should simplify the necessary Life RBC instructional change
  - LRBCWG will monitor progress on the Blanks change before finalizing RBC instruction change
  - If the Blanks does not act in time to get RBC change completed by June 30, there may need to be clarifying guidance outside of the RBC instructions.

Life Risked-Based Capital Working Group

- Discussed proposal on FHLB collateral
  - current proposal is open for comments until April 24
  - there is a concern among LRBCWG members that the proposal may encourage the increased use of advances for leveraging purposes
  - New Jersey worked with ACLI to determine if a compromise could be reached, but that was not successful
  - after comment period, ACLI has been encouraged to submit “final” proposal that the LRBCWG members may decide to adopt, revise and adopt, or reject

Life Risk-Based Capital Working Group

- Other items
  - the LRBCWG decided to move the charge from the Stress Testing Subgroup back to the LRBCWG until the completion of work by the VAIWG
    - at that time the LRBCWG will decide how to proceed on the charge
  - New York continues to work on an example for how they propose to handle unauthorized reinsurance
    - the proposal would determine collateral by recalculating RBC without effects of the treaty
    - also considering a C-2 charge to address the C-1 and C-3 impact of the insurer not holding assets related to the reinsurance transaction
    - the LRBCWG will look for continued progress on this project, but there is no current timeframe for completion

Investment Risk-Based Capital Working Group

- Academy's C-1 Working Group (C1WG) is updating corporate bond factors as a result of interested party input
  - adjusting representative portfolio to include both NAIC 1&2
    - this changes loss distribution and results in lower factors for investment grade bonds
  - planned to update factors based on issuer-based recovery assumptions, but were unable to get assumptions
    - impact on results would have been minimal
  - working on an updated recommendation

Investment Risk-Based Capital Working Group

- Exposed the change to the P&C and health RBC formulas and instructions for the increased granularity of bond factors – the process works differently than for the life RBC formula and instructions
- Exposed an RBC proposal for real estate
  - C-1 factor for real estate set at a yet-to-be-determined factor, likely 8%-10%
  - revise RBC factor for encumbrances consistent with commercial mortgages
  - implement an adjustment to reflect unrealized gains and losses
  - revise C-1 factor for Schedule BA real estate to a yet-to-be-determined factor, likely 8%-10%
  - exposure ends July 14

Capital Adequacy Task Force

- Adopted an “add-on” methodology for operational risk for all RBC formulas
  - factor will be determined by end of June, but likely 3% of RBC after covariance
  - the life formula reduces the add-on by C-4a
  - areas of potential double counting are being addressed by the Operational Risk Subgroup, but any changes based on that work would not be implemented until 2018
- Adopted Money Market Mutual Fund proposal
  - based on comments received opted for alternative that did not result in additional C-1 charge

Capital Adequacy Task Force

- Adopted stop loss proposal
  - tiered structure with 35% factor for first $25 million in premium and 25% factor for excess
- Adopted Medicare Part D proposal
  - update the Supplemental Benefits within Stand-Alone Medicare Part D Coverage line to reflect “Claims Incurred” and increase factor to 0.500
- Adopted change to Life RBC to include calculation of RBC ratio (P&C and Health already calculate ratio)
- All adoptions effective for 2017

Group Capital Calculation Working Group

- Heard presentation from the ACLI on three approaches to dealing with non-regulated entities
  1. Aggregation & Calibration approach
  2. Modified NAIC methodology
  3. Simplified version of Aggregation & Calibration approach
- Common elements of the approaches
  - focus on material financial entities and non-financial entities with demonstrable recourse to the group
  - excludes entities not meeting above standard
  - assets and liabilities of excluded entities excluded from Group Capital Calculation

Group Capital Calculation Working Group

- Exposed approach developed by NAIC staff to handle insurers that do not file RBC
  - mortgage guaranty, financial guaranty, title, captives
  - for other than captives use minimum capital requirements from NAIC models
  - captives complete RBC with limited adjustments
  - also includes that the impact of permitted and prescribed practices should be reversed
  - exposure ends May 26

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NAIC Update Spring 2017

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Member, Academy's Life Reinsurance Work Group

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Topics

- PBR, Valuation Manual, & Other Activity:
  - YRT Reinsurance
  - Covered Agreement
  - Qualified Jurisdictions
  - Reinsurance Collateral Ratings
  - Term and UL Insurance Reserve Financing Model Regulation
  - States' Implementation of Revised Credit for Reinsurance Model Law and Regulation

YRT Reinsurance

- 2016 PBR Pilot report states that post-reinsurance reserves exceeded pre-reinsurance reserves in a few cases.
- This could be due to the assumption used regarding future non-guaranteed YRT reinsurance premiums.
- The Academy's Life Reinsurance Work Group has put together a document discussing alternative YRT reinsurance premium assumptions.

Covered Agreement

- Would eliminate reinsurance collateral requirements for European Union reinsurers that meet specified capital and surplus requirements.
- U.S. Reinsurers that maintain capital and surplus of $250 million with an RBC ratio of 300% ACL would not be required to maintain a local presence to do business in the EU.

Covered Agreement (cont.)

- It is now past the 90-day period from the date it was submitted to Congress, and Treasury Department (which can now sign the agreement) is evaluating the agreement and hearing from various stakeholders.
- The NAIC submitted a letter dated Mar. 15, 2017 to the Treasury Secretary stating that the elimination of the collateral requirement should be weighed more thoughtfully against the harm to U.S. companies and consumers.

Covered Agreement (cont.)

- At the April 9 meeting of the NAIC's Reinsurance Task Force (RTF) in Denver, the chair stated that it would be counterproductive for the Task Force to discuss possible revisions to reinsurance laws until it appears that the Covered Agreement will become effective.

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Qualified Jurisdictions

- At the April 9 meeting, the Reinsurance Task Force heard a report from the Qualified Jurisdiction Working Group (WG).
- This WG had provided a preliminary report regarding the qualified jurisdiction status of France, Germany, Ireland, and the UK. Six comment letters were received and reviewed.

Qualified Jurisdictions (cont.)

- The WG has begun to consider what recommendations to include in its final report, but believes it is not appropriate to make any public recommendation prior to seeing what develops with respect to the Covered Agreement.

Reinsurance Collateral Ratings

- The RTF had received a referral from the Reinsurance Financial Analysis WG as to under what circumstances a certified reinsurer group ratings would be considered appropriate.
- A "Protocol for Considering a Group Rating" has been added to the Uniform Application Checklist for Certified Reinsurers, to provide the rationale for financial strength ratings that are based on a group rating. The RTF exposed the revised Checklist for a 30-day public comment period.

Term and UL Ins Reserve Financing Model Regulation

- The Model Regulation (MR #787) was adopted by the NAIC at the 2016 Fall National Meeting.
- The MR ensures that funds consisting of Primary Security and Other Security are held in appropriate amounts to support the ceded reserves.

Term and UL Ins Reserve Financing MR

(cont.)

- The revised Credit for Reinsurance Model Law (#785) was adopted by the NAIC on Jan. 8, 2016.
- It gives the insurance commissioners authority to issue regulations pertaining to XXX/AXXX types of life insurance policies, variable annuities, long-term-care, and any other life/health/annuity products for which the NAIC adopts model regulations with respect to credit for reinsurance.

Term and UL Ins Reserve Financing MR
(cont.)

- At its April 8 meeting, the F Committee exposed, for a 30-day preliminary exposure period, recommendations from the Task Force that the revised Model #785 and new Model #787 be adopted by the NAIC as new accreditation standards, with an effective date of Jan. 1, 2020.

States' Implementation of Revised Credit for Reinsurance Model Law and Regulation

- 39 states have passed legislation to implement the 2011 revised NAIC Credit for Reinsurance Model Law (#785).
- 28 of these states also adopted the 2011 revised Credit for Reinsurance Model Regulation.
- 9 states have adopted the 2016 revisions to Model #785.

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Questions & Answers

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