

# Life Post-NAIC Update

## Fall 2018 National Meeting



AMERICAN ACADEMY *of* ACTUARIES

*Objective. Independent. Effective.™*

November 29, 2018

# Agenda

- National Association of Insurance Commissioners (NAIC) Update on Select Life Issues—Mike Boerner
- Review of PBR Filings & Recommendations for Companies—Pat Allison
- Moderator—Dave Neve



# Update on Select Life Actuarial Task Force (LATF) Issues & Other Topics

Mike Boerner, MAAA, ASA  
November 29, 2018



# Topics Include

- ❑ PBR Review Findings & Recommendations
- ❑ Life Actuarial Task Force (LATF) Fall Meeting & Other Topics
  - Aggregation of mortality experience for PBR
  - YRT Reinsurance
  - Reinsurance Allocation
  - Simplified Issue
  - Experience Reporting
  - Economic Scenario Generators (ESGs)
  - PBR Boot Camp
  - Variable Annuity Framework
  - IUL Illustrations
  - Other Topics



# PBR Review Findings & Recommendations

- ❑ Valuation Analysis (E) Working Group (VAWG)
  - Public report released on the review of the 2017 PBR reports
  - VAWG Recommendations and Referrals provided to LATF based on this review
- ❑ Next steps for the VAWG referrals to LATF



# Aggregation of Mortality Experience for PBR

- ❑ LATF adopted amendment proposal form (APF) 2018-17.
- ❑ The APF provides greater clarity regarding the use of aggregate mortality experience for a group of mortality segments and the determination of the mortality rates for each of the individual mortality segments.
- ❑ The APF also provides clarity for the same or similar underwriting processes involved, including use of experience where accelerated underwriting may be involved.
- ❑ Guidance is provided regarding what has been referred to as a top-down or a bottom-up approach where the two approaches have subtle differences. An example is provided for the bottom-up approach. Additional more detailed examples have been requested, which will be considered for the LATF website.
- ❑ The APF will be considered for NAIC Exec/Plenary adoption at the summer 2019 meeting.



AMERICAN ACADEMY of ACTUARIES

*Objective. Independent. Effective.™*

© 2018 American Academy of Actuaries. All rights reserved.  
May not be reproduced without express permission.

# YRT Reinsurance

- ❑ LATF exposed APF 2018-58 for a comment period ending January 31.
- ❑ The APF attempts to address an issue raised in a report from the American Academy of Actuaries regarding potential materially different approaches to projecting future YRT premium rates between ceding and assuming companies in deterministic or stochastic reserve projections. The APF is based on option 2 provided in the Academy report.
- ❑ Prior comments on the Academy report showed a full range of thoughts ranging from leaving as is to much more restrictive approaches.



# Reinsurance Allocation

- ❑ The Academy's Reinsurance Work Group (RWG) discussed issues with the allocation of the reinsurance reserve credit to blocks of policies. Examples discussed include allocating the reinsurance credit to blocks that were not reinsured and allocating a reinsurance credit which contains a deterministic or stochastic reserve excess over the NPR to blocks that did not generate that excess. This can also happen even if reinsurance is not involved given the NPR allocation basis provided in VM-20, Section 2C.
- ❑ The RWG provided a couple of approaches for consideration that may address the reinsurance allocation concerns.
- ❑ This issue will be discussed by the VM Review Drafting Group for any recommendations to LATF.



AMERICAN ACADEMY of ACTUARIES

*Objective. Independent. Effective.™*

© 2018 American Academy of Actuaries. All rights reserved.  
May not be reproduced without express permission.



# Simplified Issue

- ❑ LATF exposed for comment to January 3 APF 2018-57, which was provided by the American Council of Life Insurers (ACLI).
- ❑ The APF does not specifically address or define “Simplified Issue” but is intended to include consideration for such policies where the anticipated mortality experience materially exceeds the prescribed CSO mortality rates.
- ❑ The APF provides the requirements in a new VM-20 Section 3C1g.



# Experience Reporting

- ❑ The 2019 Valuation Manual (VM) contains updated experience reporting requirements in VM-50 & VM-51 which begin on Jan. 1, 2020.
- ❑ These requirements call for the NAIC to be the Experience Reporting Agent and provide for contracting with a number of states to achieve a target level of industry experience.
- ❑ Training for companies to submit experience is expected to begin the 3<sup>rd</sup> quarter of 2019, where this training will occur online and on demand via a link.
- ❑ Submissions will occur in May through September of 2020 for data as of year-end 2018 (2-year lag).
- ❑ NAIC is to send aggregated data to the Society of Actuaries by Dec. 31, 2020.



# Economic Scenario Generators (ESGs)

- ❑ An informal group of regulators (ESG Informal Group) is working with NAIC support to discuss and consider a recommendation for the NAIC to begin the process for a replacement of the current Academy ESGs for reserve and capital purposes.
- ❑ This is based on the understanding that the Academy does not have the resources to continue to maintain these ESGs.
- ❑ The ESG Informal Group has discussions planned prior to the end of 2018 and will continue into next year.
- ❑ A target goal for a recommendation is early 2019.



# PBR Bootcamp

- ❑ Donna Claire, Academy PBR Governance Work Group chairperson, informed LATF that there will be another PBR Boot Camp scheduled at the end of the NAIC spring meeting on April 8–10 in Orlando.
- ❑ Donna said the audience will include:
  - People from companies that haven't implemented PBR
  - People from companies that have implemented PBR and want to know how to do it better; and
  - Regulators who will be overseeing PBR.
- ❑ To join the waiting list prior to official registration, use the following link:  
<http://www.actuary.org/pbrbootcamp>



# Variable Annuity Framework

- ❑ The C-3 Phase II/AG 43 (E/A) Subgroup chaired by Pete Weber, OH, has been working to provide details in requirements to reflect the Variable Annuity Framework recommendations adopted this past summer by the Financial Solvency (E) Committee.
- ❑ A drafting group led by ACLI composed of regulators, NAIC support, and others with variable annuity expertise has been working on drafting these details and providing recommendations in sections for discussion and exposure on calls of Pete Weber's subgroup.
- ❑ Another drafting group led by California is working on the reporting requirements to be reflected in the Valuation Manual.
- ❑ The target deadline is for the NAIC Exec/Plenary to adopt the requirements for the Variable Annuity Framework at the summer 2019 NAIC meeting.
- ❑ The requirements are to be effective Jan. 1, 2020, with an option at this time for early application for year-end 2019.



# IUL Illustrations

- ❑ Fred Andersen, MN, reported to LATF that there is IUL illustration activity that is raising red flags. This topic also came up at the Life Insurance and Annuities (A) Committee.
- ❑ The LATF IUL Illustration (A) Subgroup, chaired by Fred Andersen, will be looking into this activity and consider any appropriate recommendations to LATF regarding Actuarial Guideline 49, “The Application of the Life Illustrations Model Regulation to Policies with Index-based Interest.”



# Other Topics

- ❑ Prior Valuation Manual versions & LATF adopted APFs for a future Valuation Manual to be put on the NAIC Industry tab.
- ❑ Companies should check with their domestic state to see whether they can use the 2019 VM-31 for the 2018 year-end PBR report.
- ❑ Check the 2019 redline Valuation Manual on the NAIC Industry tab for changes such as the new credit life requirements beginning Jan. 1, 2019, and new requirements relating to guaranteed-issue products.



# Review of PBR Filings & Recommendations for Companies

Pat Allison, MAAA, FSA  
November 29, 2018





# VM-20 Reserves Supplement

- 23 companies implemented PBR & completed Part 1
  - Part 1 provides details on the components of the PBR reserve (i.e., NPR, DR, and SR), as well as policy counts and face amounts by type of life policy
- 215 companies elected the 3-year transition period & completed Part 2
  - Part 2 should be completed only for business issued on or after Jan. 1, 2017, that would have been subject to VM-20 in the absence of the optional 3-year transition period



AMERICAN ACADEMY of ACTUARIES

*Objective. Independent. Effective.™*

© 2018 American Academy of Actuaries. All rights reserved.  
May not be reproduced without express permission.

# Common Reporting Issues for Part 1

- ❑ Reserves and/or face amount reported in the wrong units
- ❑ Not fully completing the required columns
- ❑ Negative DR shown as zero or left blank
- ❑ Reserves in Supplement didn't match Exhibit 5

# Next Steps

- Companies are being asked to resubmit the Supplement if it is found to be incomplete or inaccurate
- NAIC staff are identifying potential changes to the Supplement design and instructions to clarify reporting requirements, and annual statement cross-checks that can be put in place



# Recommendations for Companies

- Carefully review VM-20 Reserves Supplement instructions prior to filing
- Read the 2017 PBR Review Report

[https://naic.org/documents/cmte\\_e\\_valuation\\_analysis\\_wg\\_2017\\_pbr\\_review\\_report.pdf](https://naic.org/documents/cmte_e_valuation_analysis_wg_2017_pbr_review_report.pdf)

Or go to: [www.naic.org](http://www.naic.org)

- Click on **Committees**
- Expand **Financial Condition (E) Committee**
- Click on **Valuation Analysis (E) Working Group**
- Open the **Related Documents** tab
- Click on **2017 PBR Review Report**



# PBR Actuarial Reports

## Categories of Major Findings:

Organization &  
Communication  
Issues

Missing  
Information

Other  
Methodology,  
Modeling, &  
Assumption  
Issues



# Organization & Communication Issues

- Dispersed information made it difficult to gain a complete understanding of a given topic

Example:    ■ Modeling systems information was spread across three different areas of the report

- Unclear communication

Examples:    ■ Final assumptions were not obvious  
                 ■ A/E Ratios were difficult to interpret



# Missing Information Required by VM-31

## Examples

- ❑ Materiality standard
- ❑ Anticipated experience assumptions, margins, and final prudent estimate assumptions
- ❑ Asset type, duration, and quality
- ❑ Details on reinsurance agreements



# Examples of Additional Information Needed

Item Needed	Why regulators need this
Description of riders and supplemental benefits, whether there is a separate premium, and reserve approach used	To determine whether rider and supplemental benefit reserves are determined in accordance with VM Section II
Scope/volume of business subject to each underwriting approach (full, accelerated, simplified issue)	To evaluate mortality assumptions and margins, and aggregation of mortality experience



# Examples of Additional Information Needed

Item Needed	Why regulators need this
Documentation of testing done to determine whether there were post-level term profits, including assumptions used	Use of 100% shock lapse may not be appropriate. Companies must check for and reflect post-level term losses
Documentation showing whether the company investment strategy or the alternative investment strategy produces a higher reserve	To show that both strategies were tested, and that the strategy producing the higher reserve was used

# Why is additional information needed?

## VM-31 Section 1 (Purpose)

These requirements establish the **minimum requirements** for policies subject to PBR

## VM-31 Section 2.A

The PBR Actuarial Report must include documentation and disclosure **sufficient for another actuary qualified in the same practice area to evaluate the work**



# Other Methodology, Modeling & Assumption Issues

A number of issues were noted during the review.

## Examples

- ❑ Not providing VM-20 Section 2.G support for simplifications, approximations, & modeling efficiency techniques
- ❑ Grading to industry mortality slower than required
- ❑ Not explaining an unusual pattern of net asset earned rates



# Next Steps

- NAIC staff and the California Office of Principle-Based Reserving will jointly draft 36 amendments to the Valuation Manual as recommended by VAWG
- Amendment proposal forms will be considered by LATF in future meetings



# Recommendations for Companies

- ❑ Read the 2017 PBR Review Report
- ❑ Consider using tables, graphs, and spreadsheets where appropriate
- ❑ Leverage existing documentation, such as AOMs
- ❑ Consider how the use of a few words can avoid confusion and questions from regulators

# Recommendations for Companies

- Choose an actuary qualified in the same practice area with strong writing skills to peer review the PBR Actuarial Report, assessing it for readability and compliance with each requirement
- Review ASOP No. 41, *Actuarial Communications*, when drafting the PBR Actuarial Report



# Questions?



AMERICAN ACADEMY *of* ACTUARIES

*Objective. Independent. Effective.*™

© 2018 American Academy of Actuaries. All rights reserved.  
May not be reproduced without express permission.