



September 15, 2025

Ms. Seong-Min Eom
Chair, Longevity Risk (E/A) Subgroup
National Association of Insurance Commissioners

Re: Longevity Risk Subgroup Exposure

Dear Chair Eom:

On behalf of the Life Practice Council of the American Academy of Actuaries,¹ I am sharing some of our thoughts regarding an approach for determining capital charges for longevity reinsurance, in response to the Longevity Risk (E/A) Subgroup's (Subgroup) [Longevity Risk Factor Approach Proposal Request](#).

Background

Longevity reinsurance contracts were excluded from the scope of the year-end 2021 implementation of C-2 Longevity within Life Risk-Based Capital (LRBC) because of the need for further discussion on appropriate reserve and capital methodology given product differences compared to payout annuities.

The C-2 Longevity factor implemented in 2021 was calibrated to capture the potential impact of longevity risk (mortality level, trend, and volatility risks) on payout annuity products. Longevity reinsurance transfers the longevity risk associated with immediate and/or deferred payout annuity products that are already in scope for C-2 Longevity.

Suggested Approaches

We suggest a C-2 methodology for longevity reinsurance that starts with the existing C-2 factor to maintain consistency in the calibration of longevity risk across similar products.

Several considerations unique to longevity reinsurance will need to be considered in developing final capital methodology and factors, including:

1. **The capital factor for longevity reinsurance should be applied to the present value of benefits rather than the reserve.** The existing C-2 capital factor is applied to reserves for payout annuities. Reserves for longevity reinsurance are much lower than the full present value of reinsured benefits since they give some consideration to future premiums. The existing C-2 capital factors are only appropriate for longevity reinsurance if they are applied to the full present value of annuity benefits subject to longevity risk rather than the much lower reserve amount.

¹ The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For 60 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.

2. **The calibration of the factor should consider the impact of escalating benefits.** The current C-2 factor was calibrated considering a level annuity benefit amount as is common for payout annuity benefits in the U.S. Benefit amounts that increase over time such as through a cost-of-living adjustment (COLA) may be more common within longevity reinsurance contracts that reinsure pension benefits, particularly those offered by non-U.S. plans. The Subgroup might want to consider whether escalating benefit streams warrant a higher longevity risk factor and, if so, the most appropriate way to reflect that risk in the capital framework.
3. **The Subgroup will need to decide whether to take a Total Asset Requirement (TAR) approach or to consider reserves and capital independently.** The reserve floor and aggregation restrictions applied in VM-22 result in some instances in which future premiums are not fully reflected in reserves. A principle-based TAR approach would align the capital requirement with the existing VM-22 reserve requirements and produce a combined framework that reflects all premium and benefit cashflows calibrated at an appropriate stress level, which we believe is more consistent with the risks assumed by the reinsurers writing this business. The alternative approach would be to calibrate capital independently from reserves and, consequently, not consider the impact of reserve flooring in setting capital requirements. This would be a simpler approach to implement and has historical precedent in other RBC work. However, it would also tend to overstate the risks the companies writing this business are exposed to in practice, likely resulting in a TAR greater than a principle-based calculation.

We appreciate the opportunity to share this feedback with the Subgroup. Should you have any questions or comments regarding these comments, please contact Amanda Barry-Moilanen, the Academy's life policy project manager (barrymoilanen@actuary.org).

Sincerely,

Jason Kehrberg, MAAA, FSA
Chairperson, Life Practice Council
American Academy of Actuaries