

May 8, 2019

Mr. Mike Boerner
Chair, Life Actuarial (A) Task Force
National Association of Insurance Commissioners

RE: APF 2019-38

Dear Mr. Boerner:

I am addressing this to you on behalf of the American Academy of Actuaries¹ (Academy) Life Experience Committee and Society of Actuaries² (SOA) Life Mortality Improvement subgroup (LMIG), collectively referred to as the “Joint Committee.” Prior to LATF’s adoption of the 2017 Guaranteed Issue CSO Tables (2017 GI CSO), which applies a 75% loading to the underlying mortality basic ultimate tables, the Joint Committee had recommended mortality valuation tables with a loading structure akin to that used for the 2017 CSO Tables. These loads generally ranged from 17% to 21%. Although these loads covered only 55% of the contributing company experience, it covered over 98% of the total exposure of the underlying experience from the contributing companies. At your request, the Joint Committee also presented mean and mid-terminal reserve comparisons to alternative CSO tables and loading levels.

As noted in the APF, the comparisons were for the raw basic reserves and did not reflect deficiency reserves nor the non-forfeiture floor. The comparisons previously provided are attached along with a basic description of the product and premiums used for the model office testing. I have also attached new graphs showing a comparison of the projected reserves that reflect deficiency reserves and the non-forfeiture floor. Based on the model office run, the non-forfeiture floor results in a minimal increase in the reserve level, whereas the deficiency reserves are significant at the existing 75% loading level. Please note that the reserve with the 75% loading is the only loading level that results in deficiency reserves in the model office across all age segments; no deficiency reserves develop for the 35% loading, initially recommended loading or the 2001 CSO or 2017 CSO.

Due to concerns with the 75% load, LATF is considering allowing use of the 2001 CSO Tables for Guaranteed Issue (GI) business. The Joint Committee’s primary concern with continuing to use the existing 2001 CSO Tables is that the shape of the mortality curve in the 2001 CSO Table pertains to fully underwritten business and is inconsistent with that of GI business. GI mortality tends to be anti-selective and much higher than its fully underwritten counterpart, especially in the earlier years of the contracts. This level of anti-selection does grade down over time.

¹ The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 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 Society of Actuaries (SOA) is an educational, research and professional organization dedicated to serving the public, its members and its candidates. The SOA’s mission is to advance actuarial knowledge and to enhance the ability of actuaries to provide expert advice and relevant solutions for financial, business and societal problems. The SOA’s vision is for actuaries to be the leading professionals in the measurement and management of risk.

By not reflecting the increased early-duration mortality, the reserves prior to the application of deficiency reserves and the non-forfeiture floor are approximately one-third of what they would be in the first duration compared to the reserve using the originally recommended mortality by the Joint Committee. This differential decreases over a period of approximately nine to 10 years, at which point the reserves using the 2001 CSO exceed the reserves using the originally recommended mortality by the Joint Committee. However, compared to the reserves using the 75% loading, the reserves using the 2001 CSO are more than 300% lower in year 1. While the differential reduces quickly, the reserves using the 2001 CSO never exceed the 2017 GI CSO reserves, with an ultimate differential of approximately 7%.

The Joint Committee recognizes and agrees that the 75% loading currently used for the 2017 GI CSO is punitive and not reflective of recommendations of the group nor the material level of exposure within the underlying experience. We are concerned that the reserves for the 2001 CSO Ultimate are not appropriate for GI business. We understand it is not practical to adopt a table with a better fit to the underlying experience in time for companies to reprice their products and not create complete market disruption. However, we would recommend a revised table be made available as expeditiously as possible. In addition, we recommend the following until such time a more appropriate GI CSO table is in place:

- Require carriers with GI blocks of business to:
 1. Perform asset adequacy testing with mortality consistent with the actual experience of their GI business; or
 2. Provide a demonstration to the appropriateness of the 2001 CSO table for its book of business; or
 3. Provide a demonstration that the GI business is not material.
- Modify the Valuation Manual (VM) to incorporate GI business in the mandatory data collection under VM-51. We believe GI business, once the additional required data elements are incorporated, should be subject to the mandatory data collection for GI carriers. These additional data elements will better segment the business by the significant drivers of mortality, such as marketing approach, target market, and distribution.

Please advise if we can be of further assistance in the review or the GI mortality loading or the revised updated study currently being performed by the New York State Department of Financial Services.

Sincerely,

Mary J. Bahna-Nolan, FSA, MAAA, CERA
Chair, Academy Life Experience Committee and SOA Preferred Mortality Oversight Group

cc: Reggie Mazyck

Attachment 1: Sample Model Office Premiums

These premiums are for a hypothetical guaranteed issue Whole Life product. The gross premiums were developed using the graduated experience table with modest loads and a death benefit typical for these products which is a multiple of the gross premiums paid in the first two years.

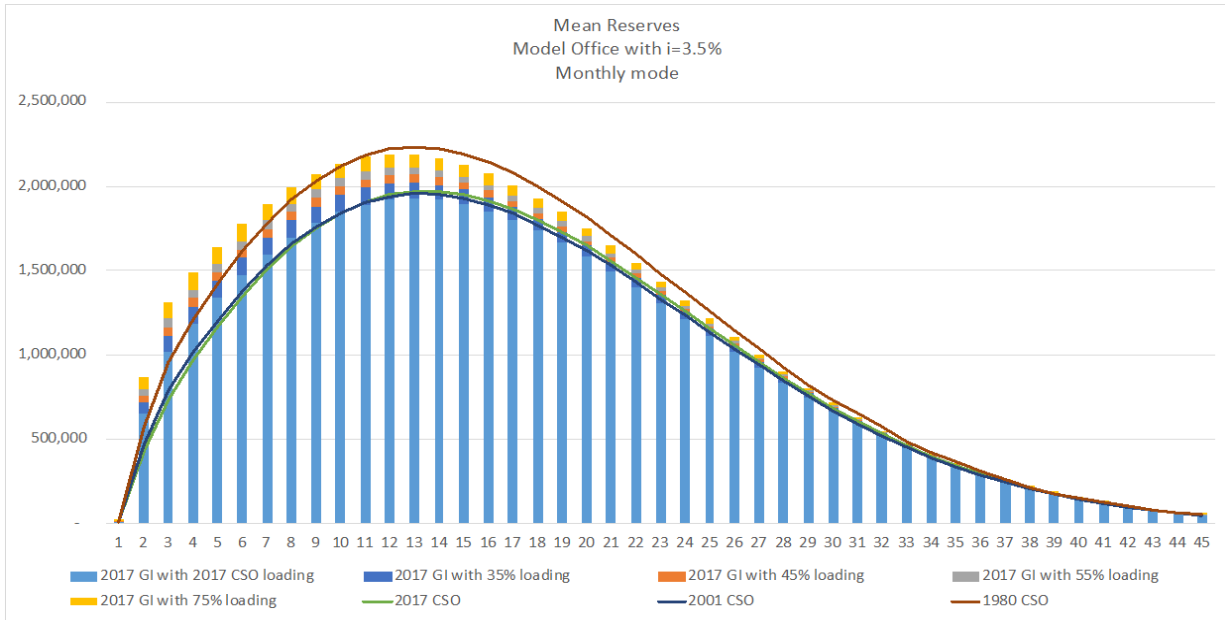
Gross premiums are based on a hypothetical guaranteed issue product.

Female															
Age	Gross Premium	Net Premium							NP Exceeds GP?						
		01CSO	17CSO	GI (17CSO Load)	GI (35% Load)	GI (45% Load)	GI (55% Load)	GI (75% Load)	01CSO	17CSO	GI (17CSO Load)	GI (35% Load)	GI (45% Load)	GI (55% Load)	GI (75% Load)
47	37	18	16	31	33	35	36	40	-	-	-	-	-	-	NP>GP
57	47	27	25	41	44	46	49	53	-	-	-	-	-	NP>GP	NP>GP
67	68	45	43	60	66	69	72	78	-	-	-	-	NP>GP	NP>GP	NP>GP
77	113	79	79	99	109	114	119	129	-	-	-	-	NP>GP	NP>GP	NP>GP

Male															
Age	Gross Premium	Net Premium							NP Exceeds GP?						
		01CSO	17CSO	GI (17CSO Load)	GI (35% Load)	GI (45% Load)	GI (55% Load)	GI (75% Load)	01CSO	17CSO	GI (17CSO Load)	GI (35% Load)	GI (45% Load)	GI (55% Load)	GI (75% Load)
47	57	21	18	46	50	53	56	61	-	-	-	-	-	-	NP>GP
57	70	34	28	59	65	68	72	79	-	-	-	-	-	NP>GP	NP>GP
67	94	57	48	82	90	95	100	109	-	-	-	-	NP>GP	NP>GP	NP>GP
77	149	106	91	129	142	150	158	173	-	-	-	-	NP>GP	NP>GP	NP>GP

Attachment 2: Mean Reserve Comparisons—All ages, Monthly mode

Graph 1: No CV Floor or Deficiency Reserves



Graph 2: 2017 GI CSO (with 75% loading) With CV Floor and Deficiency Reserves

