

# Post-NAIC Update/PBA Webinar

August 30, 2012

**Moderator: Dave Neve, FSA, MAAA, CERA**  
Chairperson, American Academy of Actuaries  
Financial Soundness/Risk Management Committee



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# Agenda

- **Summer 2012 LATF Update:** Mike Boerner, Chair, NAIC Life Actuarial Task Force
- **PBR Updating and Review Process and Actuarial Guideline 38:** Dave Neve, Chairperson, Life Financial Soundness/Risk Management Committee
- **Capital and Professionalism Updates:** Tricia Matson, Chairperson, Life Capital Adequacy Task Force



# Summer 2012 LATF Update

**Mike Boerner, ASA, MAAA**

Chair, NAIC Life Actuarial Task Force (LATF)

Director, Actuarial Office

Texas Department of Insurance



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# Summer 2012 LATF Update

- Valuation Manual (VM) Status
  - Enabling Legislation
  - VM Additional Work
- VM-22 Status: PBR for Non-Variable Annuities
- Experience Reporting Requirements
- 2012 Individual Annuity Reserve Mortality Table & Model 821
- Actuarial Guideline 33 & GLIBs
- 2013 GRET Factors
- Other Items & Status Reports



# Valuation Manual & Enabling Legislation Status

- LATF adopted the Valuation Manual (VM) on 8/2/12.
- NAIC “A” Committee adopted VM on 8/17/12.
- States will be able to consider adoption of enabling SVL beginning in the 2013 legislative sessions. All states are in session during the odd years where both a super majority legislative and NAIC adoption is required for the Valuation Manual to become operative.
- LATF is drafting a briefing document to assist states in legislative consideration for adoption of the enabling SVL. Companion changes in the Standard Nonforfeiture Law for Life Insurance to coordinate mortality and interest plus information regarding the Valuation Manual will be included.



# Review of Super Majority Vote Required For VM to Become Operative

- VM becomes operative on January 1 following:
  - 1) NAIC adoption of VM by 42 members or 75% of members voting, whichever is greater; and
  - 2) SVL legislative enactment by states representing greater than 75% of direct premiums written as reported in 2008 annual statements; and
  - 3) SVL legislative enactment by at least 42 of the 55 jurisdictions (50 States, American Samoa, American Virgin Islands, District of Columbia, Guam, and Puerto Rico).



# Review of Super Majority Vote For VM Changes Once Operative

- Once operative, changes to the VM are effective on the January 1 following:
  - NAIC adoption by 75% of members voting, but not less than a majority of total membership; and
  - NAIC adoption representing jurisdictions with greater than 75% of direct premiums written reported in the most recent annual statements; and
  - If decided by the commissioner, adoption by rule.



# Valuation Manual Additional Work

- Given the scope of requirements in the VM there will always be ongoing work.
- LATF reviewed and prioritized input requested prior to the summer meeting for short-term and longer-term VM projects.
- Short-term projects targeted for completion by end of 2012 include:
  - Clarification regarding the stochastic generator in VM-20, and other items
  - More significant items may be considered such as adjustments to the Net Premium Method, adjustments to the mortality assumption, and adjustments to the procedures for making changes to the VM.





# Valuation Manual Additional Work

## Longer-Term Projects Include:

- Aggregate margin & appropriate adjustments to collar:
  - LATF subgroup was established; Chair: Mark Birdsall, KS
- Consider company use of own stochastic generator
- Consider allowance for partial risk transfer
- Address requirements for quarterly reporting
- Centralized resources & PBR review process for changes
- PBR reporting for blanks
- Financial Analysis Handbook & Examination PBR procedures
- Support for NAIC Statistical Agent Process & Analysis
- Support SAPWG for APPM reference to VM requirements



# VM-22 Status: PBR for Non-Variable Annuities

- Jim Lamson provided a status report on behalf of the Academy's Annuity Reserve Work Group (ARWG).
- ARWG has developed an approach for VM-22 and is currently drafting VM-22 in similar format to that of VM-20.
- LATF directed that a subgroup will be established to work with the ARWG and this draft of VM-22.



# Experience Reporting Requirements

- Fred Andersen, NY, provided a status update on the New York pilot project where life experience was collected using the Valuation Manual reporting format.
- The New York pilot project will provide contributions to the NAIC project to develop the Statistical Agent process and subsequent analysis.
- Fred Andersen agreed to begin development of annuity experience reporting requirements for the Valuation Manual.
- Steve Ostlund, Health Actuarial Task Force (HATF) chair, will discuss with HATF possible development of long-term care experience reporting requirements for the Valuation Manual.



# 2012 Individual Annuity Reserve Mortality Table & Model 821

- Mary Bahna-Nolan provided a report regarding this exposed table on behalf of the joint Academy/SOA Payout Annuity Table Team.
- Fred Andersen, NY, reviewed the changes to Model 821 to incorporate this table.
- Comments were provided expressing concerns regarding the level of margin in this table and difficulties in implementing this generational table. Included was a request for a transitional period of time.
- LATF will hold a conference call to continue discussion of the issues raised by the comments.



# Actuarial Guideline 33 & Guaranteed Living Income Benefits (GLIBs)

- Tomasz Serbinowski, UT, chairs a subgroup reviewing AG 33 and GLIB considerations. Tomasz provided the status of the subgroup.
- Key issue involves AG 33 level of conservatism in judgment allowed regarding assumptions on utilization of the GLIB benefit.
- The subgroup is considering any appropriate changes to AG 33 to allow greater judgment regarding GLIBs. The subgroup is also reviewing arguments that GLIBs be considered within the scope of AG 43 until PBR for non-variable annuities is operative.
- The subgroup plans additional calls this fall prior to a recommendation to LATF.



# 2013 GRET Factors

- Tom Rhodes (MIB) presented the report on the 2013 GRET factors from the SOA's Committee on Life Insurance Company Expenses (CLICE).
- 244 companies who passed the outlier and reinsurance exclusion tests were included as a base for the 2013 GRET factors.
- Distribution channel information was again used to provide GRET factors by distribution channel. Some additional survey information was used for this.
- Volatility in several of these factors was discussed.
- LATF exposed the 2013 GRET factors for a 30-day comment period.



# Other Items & Status Reports

- Anticipated Corporate Governance Working Group referral regarding appointed actuary report to the board of directors
- C3 Phase II / AG 43 Subgroup Status
- IIPRC Status Report from Alice Fontaine
- International Update from Larry Bruning



# PBR Updating and Review Process and Actuarial Guideline 38

**Dave Neve, FSA, MAAA, CERA**

Chairperson, American Academy of Actuaries Financial  
Soundness/Risk Management Committee



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# Need for a PBR Review and Updating Process

- LPC Chairperson Cande Olsen made presentations to LATF and the PBR Working Group on the need for a formal PBR review and updating process
  - To evaluate the impact of prescriptive/limiting elements so that they can be adjusted/removed once actuarial practice established and regulators comfortable with company filings
  - To review the assumption-setting and modeling process to ensure it is up-to-date
- Such a review process will likely require additional resources at the NAIC level



# AG 38 - Background

- Secondary guarantees in UL provide that policies will remain in force as long as premiums are paid at a certain level or the shadow account meets certain minimums
- There would be a second tier of rates/minimums if certain conditions met
- Some companies assumed that everyone would be charged the higher premiums in setting up reserves



# AG 38 – NAIC actions

- LATF issued a statement saying low premium stream should be used in setting reserves
- NAIC formed a joint working group of the Life Insurance and Annuities (A) and Financial Condition (E) Committees, which issued changes to AG 38 (Sections 8D and 8E)
  - Section 8D: applies to in-force as of 12/31/12
  - Section 8E: applies to business issued 1/1/13 and later



# AG38 Changes to In-force

## (Section 8D)

- Applies to business issued from 7/1/05 to 12/31/12
- Reserve is the greater of:
  - Reserve based on assumptions and methodology used by the company as of 12/31/2011
  - Reserve based on the deterministic reserve under VM-20, using the most recent NAIC adopted version, with:
    - Aggregate cap on net investment return of starting assets equal to portfolio yield of A-rated Corporate bonds
    - Cap on projected reinvested assets using 12-month average Moody's
- Separate test for 12/31/2012 only using VM-20 and net reinvestment cap of SVL valuation interest rates
- Policies may still be subject to 8C standalone analysis



# Exemptions to Section 8D

- Section 8D doesn't apply if:
  - Face amount of ULSG policies is less than 2% of total permanent face amount and less than \$1 billion
  - Minimum gross premiums for the policies are determined by applying the set of charges and credits that produces the lowest premiums
  - The state of domicile approves an exemption request and the NAIC Financial Analysis Working Group (FAWG) does not disagree



# Implementing 8D of AG 38

- Implement the VM-20 mortality approach
- Implement the net investment income caps
  - Both in-force and reinvested assets
- Valuation interest rate sensitivity test
  - Calculate reserve and use it to estimate total adjusted capital
  - Not clear how to allocate assets to year of policy issue
- Actuarial memo for state of domicile and NAIC FAWG



# AG38 Changes to New Business

(Section 8E)

- Rules in effect from 1/1/13 to date PBR goes into effect
- Requires calculation of greatest present value of accumulated deficiencies using lowest premium level
- “Lowest” premium level defined as one producing greatest value
- Safe harbors on premium levels are permitted
  - However, safe harbors are limited to policy designs that don’t exceed a maximum interest rate cap on shadow account
  - Has broadened the scope of products affected by these changes



# Scope of AG 38 Changes

- The scope of products affected under the initial LATF Statement has been broadened
- You may want to speak to pricing actuaries to determine:
  - If in-force business is included in scope
  - If new business meets safe harbors, and if not, what actions may need to be made to re-price or re-design products





# Capital and Professionalism Updates

**Tricia Matson, FSA, MAAA**

Chairperson, American Academy of Actuaries

Life Capital Adequacy Subcommittee

VP, Enterprise Risk Management

MassMutual



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# NAIC's LRBC WG Activities

- Commercial mortgage revisions is top priority (target approval by year end 2012, for 2013 RBC calculation)
- Review of C3 Phase 2/AG43 is second priority, with initial focus on revisions to AG43
  - First round of changes may involve simple adjustments to certain parameters
  - Second round of changes may involve modifications to methodology
- Remaining priorities relate to C3 Phase 1 and C3 Phase 3
  - Rejuvenation of Academy's proposed methodology for C3 Phase 3
  - Application of C3 Phase 2/3 modeling methodology to C3 Phase 1
  - Use of one economic scenario generator for all C3 calculations



# Progress of C1 Factor Review Subgroup

- Work being led by NAIC's C1 Factor Review Subgroup, a joint subgroup of the VOSTF and the CADTF. Objectives include:
  - Review/update the factors for recent experience (note: current factors have been in place since RBC introduction in 1992)
  - Reflect changes in the capital markets & changes in the composition of insurers' asset portfolios
- Factor development will extend into 2013, with the earliest possible adoption by year-end 2013, with an effective date for year-end 2014 RBC
- Academy's C1 Work Group, chaired by Nancy Bennett and Jerry Holman, is actively contributing to the review.
  - First priority for Academy C1WG is a review of the C1 factors for corporate bonds
  - Completed build of bond engine and replicated 1991 factors
  - Continuing investigation of default studies (Moody's and S&P) and how to resolve inconsistencies in underlying data
  - Once default/recovery assumptions are finalized, next step is to build representative portfolios for modeling



# Progress of C1 Factor Review Subgroup

(cont.)

- Next steps for Academy's C1 Work Group
  - Recommend a modeling package to regulators and industry including assumptions and methodology
  - Major items include loss assumptions, treatment of AVR, structure of C1 charges, number of NAIC classes, integration with capital determination for structured securities
  - Obtain preliminary endorsement from regulators and industry, subject to results
- Next steps for NAIC's C1 Factor Review Subgroup
  - Review of factors for other asset types (common stock, real estate, derivatives, Schedule BA)
  - Recommend factors to parent group, including the following:
    - Time horizon (e.g., 10 years)
    - Risk metric (e.g., percentile, CTE)
    - Statistical level (e.g., 95<sup>th</sup> percentile, 90 CTE)
  - Determine applicability of factor changes to Health and P&C RBC formulas



# ACLI's Commercial Mortgage Proposal

- Life RBC WG is reviewing a proposal from the ACLI to modify the calculation of RBC for commercial mortgages in good standing.
- Proposal would replace the current approach where
  - Capital charge is derived from a base factor of 2.6%
  - Adjusted for insurer's mortgage experience adjustment factor (MEAF)
- Instead, capital charge would be determined based on placement in a two dimensional grid of Loan-to-Value (LTV) and Debt-Service-Coverage-Ratio (DCR), applied to five newly defined mortgage classes
- Academy's Invested Asset Work Group, chaired by Jeff Johnson, is reviewing the proposal



# Academy Professionalism Event

- Academy event took place on August 11, sponsored by the Council on Professionalism (COP), with the following objectives:
  - Increase understanding of Code of Professional Conduct, Standards of Practice, and Professionalism bodies
  - Forum for regulators to ask specific questions of professionalism representatives
- Presentation and Q&A, followed by “office hours”
  - Sheila Kalkunte, Assistant GC, Academy
  - John Gleba, Council on Professionalism
  - Curtis Huntington and Nancy Behrens, ABCD
  - Tricia Matson, ASB
- The Academy professionalism representatives plan to attend future NAIC meetings to give regulators opportunities to meet and share



# Q&A



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