

Post-NAIC Update/PBA Webinar

Moderator: Dave Neve, FSA, MAAA, CERA

Chairperson, American Academy of Actuaries

Life Financial Soundness/Risk Management Committee

April 23, 2013



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Agenda

- **NAIC PBR/LATF Update** - Life Actuarial (A) Task Force (LATF), PBR Implementation (EX) WG, and Emerging Actuarial Issues (E) WG (EAIWG): Mike Boerner, NAIC LATF Chair & EAIWG Chair
- **Academy PBR Update:** Dave Neve, Chairperson, Academy Life Financial Soundness/Risk Management Committee
- **Professionalism Update:** Cande Olsen – Vice President, American Academy of Actuaries' Life Practice Council



NAIC PBR/LATF Update

Mike Boerner, ASA, MAAA

Chair, NAIC Life Actuarial (A) Task Force

Chair, Emerging Actuarial Issues (E) WG

Director, Actuarial Office

Financial Regulation Division, Examinations

Texas Department of Insurance



Spring 2013 PBR, LATF & AG38 Update

- PBR Status
 - 2013 Legislation
 - PBR Implementation (EX) Task Force
 - LATF PBR Work
- Other LATF Work
- Emerging Actuarial Issues (E) Working Group
- AG 38 Review



PBR Legislation

- Legislation to implement PBR and the Valuation Manual includes the 2009 NAIC adopted amendments to the SVL (Model 820) plus the 2012 NAIC adopted amendments to the SNFL (Model 808).
- This legislation is being considered by a number of jurisdictions for the first time during the 2013 legislative sessions.
- Arizona is the first state to adopt this legislation.
- Approximately 9 other jurisdictions are considering this legislation in their 2013 legislative sessions.
- PBR and the Valuation Manual become operative on the January 1st following legislative adoption by at least 42 jurisdictions representing at least 75% of direct written premium as provided in the SVL.



PBR Implementation (EX) Task Force

- Recently formed task force that reports to the NAIC Executive Committee.
- Task force has Co-Chairs Commissioner McPeak (TN) & Superintendent Torti (RI)
- Key charges involve efforts to:
 - 1) Develop, maintain, and oversee components of the Implementation Plan for PBR.
 - 2) Create a legislative information package regarding PBR to assist the states in their adoption efforts.
 - 3) Consider recommendations regarding captives in the context of the proposed PBR system and make any further recommendations.



PBR Implementation (EX) Task Force

- Revised Implementation Plan for PBR – Comments due 5/6/13
 - I. PBR Review & Updating Process
 - NAIC Actuarial Resource
 - Actuarial Analysis Working Group (AAWG)
 - II. Experience Data Collection Process
 - III. Standardized Financial Reporting and Analysis Tools
 - IV. Captives and Special Purposes Vehicles (SPVs)
 - V. Training
 - VI. Accreditation
 - VII. Implementation Areas and Charges to Other NAIC Groups
 - VIII. Timeline



PBR Implementation (EX) Task Force

- Task force formed group to work with NAIC staff to expand list of key processing tasks and decision points in the PBR Implementation Plan and to prioritize activities. Members of this group include CA, CT, FL, KS, NY, and TX.



PBR Implementation (EX) Task Force – LATF PBR Work

- Aggregate Margin
- VM-22
- Experience Reporting
- Academy Amendment Proposal Forms
- 2014 Valuation Basic Table
- LATF PBR Review Subgroup



PBR Implementation (EX) Task Force – LATF PBR Work

AGGREGATE MARGIN

- LATF Aggregate Margin Subgroup (Chair: Mark Birdsall, KS)
 - A problem with individual margins is that offset for correlations among individual risks is imprecise and subjective.
 - Educational calls held to date.
- Academy Aggregate Margin Task Force (Chairperson Patricia Matson)
 - A goal is to identify conceptual framework that identifies the best approaches that address practical issues such as auditability, practicality, transparency, and achievement of solvency goals.



PBR Implementation (EX) Task Force – LATF PBR Work

VM-22

- VM-22 Subgroup (Chair: Felix Schirripa, NJ)
 - PBR for non-variable annuities.
 - Recent organizational call with discussion of a few areas including preservation of a cash value floor.
 - Mark Birdsall discussed new concept for VM-22 involving an aggregate margin & other changes from VM-20 framework.
- Academy Annuity Reserve WG (Chairperson: Jim Lamson)
 - Provided ARWG report and will work with the VM-22 Subgroup on requirements and discuss the new concept.



PBR Implementation (EX) Task Force – LATF PBR Work

EXPERIENCE REPORTING

- Experience Reporting Subgroup (Chair: Fred Andersen, NY)
 - LATF re-exposed policyholder behavior experience reporting.
 - Exposure involves fewer reporting fields (four) versus prior exposure. Exposure provides for reporting regarding term life lapses, before and after level premium period, and ULSG reporting by duration.
 - Additional policyholder behavior reporting is anticipated in a second phase to be developed in the future.



PBR Implementation (EX) Task Force – LATF PBR Work

ACADEMY AMENDMENT PROPOSAL FORMS

- Academy Life Reserves Work Group (Chairperson: Dave Neve)
 - Discussed three amendments to VM-20 of the Valuation Manual.
 - First: Clarify treatment of policy loans.
 - Second: Simpler calculation of Deterministic Reserve.
 - Third: Adjust the way the pretax IMR is brought into the reserve calculation.
- LATF exposed the three amendments for comment.



PBR Implementation (EX) Task Force – LATF PBR Work

2014 VALUATION BASIC TABLE

- Academy Life Experience Subcommittee (Chairperson: Mary Bahna-Nolan)
 - Significantly greater experience is available for the 2014 VBT than for the development of the 2008 VBT.
 - Three sets of tables are likely to be developed: 1) Underlying experience table; 2) VBT tables; and 3) Commissioner Standard Ordinary (CSO) table.
 - Work has not started on the CSO table. The subcommittee will discuss appropriate margins with LATF.



PBR Implementation (EX) Task Force – LATF PBR Work

- LATF formed PBR Review Subgroup
 - Charge: Develop risk-focused procedures for the annual review of PBR and on examinations. Consider all inputs to such procedures including anticipated public and confidential data reporting, NAIC resources, and other relevant processes. Make recommendations to any of these inputs as appropriate.



PBR Implementation (EX) Task Force

- NAIC State Resource Survey
 - Conducted in March. 40 of the 56 jurisdictions submitted survey responses.
 - Although survey responses could indicate that PBR may not be as substantive an impact as some thought, it was clear that most jurisdictions feel there is insufficient information on which to base future resource needs at this time.
 - Further refinement of the PBR review process will help to provide better estimates of resource needs.



PBR Implementation (EX) Task Force

- PBR Legislative Briefing Document
 - [On PBR Implementation \(EX\) TF website.](#)
 - Includes background and key points.
 - Open call will discuss today after this webinar.
 - Dave Neve will provide comments later in the webinar.
- Captive and Special Purpose Vehicles
- Coordination with the Federal Insurance Office



OTHER LATF TOPICS / WORK

- Guaranteed Issue / Simplified Issue Mortality Tables
- Reserving for Synthetic Guaranteed Investment Contracts
- Update from Academy Nonforfeiture Modernization Work Group
- Discussion of change to Standard Nonforfeiture Law for Life Insurance (Model 808) to provide a 4% floor for the nonforfeiture interest rate.
- Status update from the C-3 Phase 2 / AG 43 Subgroup.
- Actuarial Guideline 33 exposure.



OTHER LATF TOPICS / WORK (cont)

- Status of the Joint Qualified (A/B/C) Subgroup
- Separate Account Index-Linked Annuities
- Update from Academy AOMR Communication Discussion Group
- Referral from the Corporate Governance (E) Working Group



Emerging Actuarial Issues (E) Working Group (EAIWG)

- At the spring 2013 NAIC meeting the EAIWG adopted 2013-INT29 and exposed a response to a separate question. Both the adoption and the exposure were in response to questions on AG38, Section 8E.
- The Working Group began discussions on another 8E question at this meeting and will continue discussions on a conference call.
- Company judgment and documentation was the response previously provided to a question regarding credit for reinsurance. However, it was mentioned that guidance can be provided if needed for the subsequent year end 8D calculations.



Emerging Actuarial Issues (E) Working Group (EAIWG)

- Interpretations adopted by the EAIWG, the “E” Committee, and Plenary will appear in the Accounting Practices and Procedures Manual. Adopted interpretations are found on the EAIWG website.
- Links to the EAIWG website and template for submitting questions :
 - http://www.naic.org/committees_e_emerging_actuarial_issues_wg.htm
 - http://www.naic.org/documents/committees_e_emerging_actuarial_issues_wg_related_submission_form.doc



AG 38 Reviews

- Pursuant to AG 38, Section 8E, domestic states will submit 8E actuarial opinion & company representation filings and will also submit Section 8D filings to the Financial Analysis Working Group (FAWG).
- Other filings are also required such as filings regarding an AG 38, 8E, Method II submission.
- The NAIC Financial Analysis Working Group (FAWG) is to use interpretations adopted by the EAIWG & the “E” Committee in their reviews of AG 38 filings.
- The FAWG review is in process for this first year of submissions.



Academy PBR Update

Dave Neve, FSA, MAAA, CERA

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



Summary of Academy PBR Projects

- The Principle-based Reserves Strategy Task Force (PBRSS) has provided comments on the NAIC Legislative Brief and will be discussing its comments on the NAIC call later today.
- The PBRSS is working on a legislative brief of its own intended to be a companion piece to the NAIC brief.
 - Will add emphasis of actuarial aspects of issues.
 - As it is the task force's intent not to duplicate efforts by the NAIC, it will therefore not be completed until after the NAIC brief is finalized.
- The PBRSS provided comments on the NAIC Draft Implementation Plan. The NAIC has re-exposed the Draft Implementation Plan for further comment through May 6.



Summary of Academy PBR Projects

- The Academy's PBR Impact Task Force
 - Working on an appropriate response to the question received from many legislators regarding the expected dollar impact of PBR on total industry reserves.
 - This task force is intended to facilitate the work of the PBRSS in an advisory role, and as such will not produce its own report, but rather advise the PBRSS on that question (which may or may not result in a quantifiable outcome).



Summary of Academy PBR Projects

- The PBR Practice Note Work Group is developing a PBR Practice Note to provide information to actuaries working with the new PBR methodology on current/emerging practice.
- An Academy group is developing an educational session on PBR Valuation:
 - Will be presented at this year's NAIC Financial Summit and will focus on the needs of non-actuary financial examiners.
 - It will compare and contrast the current valuation requirements with the PBR valuation requirements included in the Valuation Manual.



Summary of Academy PBR Projects

- The Aggregate Margin Task Force is working on a proposal to replace individual margins in VM-20 with aggregate margins.
- The Life Reserves Work Group submitted amendment proposal forms to LATF on VM-20 that were exposed in Houston and is prepared to comment on subsequent LATF calls. These include:
 - A modification to the current deterministic reserve.
 - A clarification of the approach to model policy loan cash flows in the deterministic and stochastic reserve calculations.
 - A simplified method to recognize the effect of the pre-tax IMR.



Professionalism Update

Cande Olsen, FSA, MAAA

Vice President, Life Practice Council



Discussion of Professionalism Issues at NAIC

- Academy professionalism team provided status reports to LATF/HATF/CASTF on key professionalism issues.
- Academy president addressed NAIC Joint Qualified Actuary (A/B/C) Subgroup in its request for comments.
- Academy Council on Professionalism (COP) hosted a breakfast with regulators to have an open dialogue on issues facing regulators regarding professionalism and actuaries.



Status Reports to LATF/HATF/CASTF on Key Professionalism Issues

- Activities of COP Task Force on Discipline formed last year to identify any potential improvements to the profession's counseling and discipline processes, particularly with regard to those that might improve the perceptions of members, regulators, and ultimately the public at large.
- Report of recent activity of the Actuarial Standards Board (ASB) such as proposed Actuarial Standards of Practice on PBR, modeling, and credibility and other matters (Tricia Matson, VP, ASB).
- Summary of Actuarial Board of Counseling and Discipline (ABCD) process, statistics, and requests for guidance (Curtis Huntington, member, ABCD).



Open Meeting of the NAIC Joint Qualified Actuary (A/B/C) Subgroup Held

- Academy President Cecil D. Bykerk addressed the subgroup to present combined [comments](#) from the Academy's Casualty, Health, Life, and Professionalism Councils on the subgroup's request for comment on questions it distributed in connection with its charge to develop a uniform definition of "qualified actuary" and addressing "inappropriate" or "unprofessional" actuarial work.
- Questions were posed by subgroup members to several representatives from actuarial organizations and consumer groups.



COP Hosted Breakfast with Regulators on Professionalism Topics

- Included representatives from ASB, ABCD, Committee on Qualifications, and COP.
- Goal of breakfast to listen to regulator concerns on professionalism matters in order to consider and return with responses by next NAIC meeting in August.
- Very well attended by regulators and interested parties with meaningful dialogue lasting over 1 1/2 hours.
- Issues discussed included regulator concerns about reporting actuaries to the ABCD for reasons such as confidentiality concerns; needed clarification of ASOPs; and perception of liability.



Questions

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