

Fall 2020 NAIC National Meeting (virtual) Summary

- A. **Life Actuarial Task Force** – the following topics were covered:
1. [VM-22 Subgroup Report](#) – LATF heard an update on progress to develop a proposal for a principle-based statutory reserve framework for non-variable annuities within VM-22. It was reported that the Academy ARWG is drafting a Valuation Manual chapter reflecting the principles that were previously outlined, expected in the Spring of 2021. It was also noted that the NAIC Subgroup recommended that a deterministic approach be included in VM-22, but they didn't opine on whether that should be included as a floor reserve or as an illustrative calculation to facilitate review. **LATF adopted the Subgroup report.**
 2. [Interstate Insurance Product Regulation Commission \(IIPRC\)](#) – LATF heard an update on the upcoming IIPRC session during the National Meeting. It was noted that the IIPRC is considering an emergency rule to delay acceptance (within the Compact) of recent changes to the NAIC Model Regulation 805 for deferred annuities for 120 days. **LATF took no action.**
 3. [SOA Research and Education](#) – LATF heard an update on SOA research and education efforts. **LATF took no action.**
 4. [Academy Life Practice Council](#) – LATF heard a report from the Academy Life Practice Council on 2020 activities, and on upcoming activities for 2021. **LATF took no action.**
 5. [Experience Reporting Subgroup Report](#) – LATF heard an update on questions around compliance with HIPPA confidentiality requirements with respect to VM-51 and Amendment Proposal Form 2019-56. **LATF took no action.**
 6. [Valuation Manual Amendments](#) – **LATF adopted one amendment proposal form, and exposed two others.**
 7. [Economic Scenario Generator \(ESG\)](#) – LATF heard an update on the project to develop a new ESG for principle-based reserve, RBC, and other uses, along with a more detailed discussion on the interest rate model. **LATF took no action.**
 8. [Other Matters](#) – None.
- B. The [Life RBC WG](#) The WG did not meet during the National Meeting. I will add updates on selected topics below as they become available.

Fall 2020 NAIC National Meeting (virtual) Background and Details

Life Actuarial Task Force – December 3, 2020

1. VM-22 Subgroup Report

Subgroup chair Bruce Sartain (IL) led the discussion (page 20 of the LATF Session 1 Materials), and introduced the different work flows that are going on to continue to develop PBR for non-variable annuities. He noted that the most critical item recently discussed is the issue of aggregation, and he noted that there are several threads around this. He noted an outline in an Academy Annuity Reserve Work Group (ARWG) report on these issues (see https://www.actuary.org/sites/default/files/2020-06/ARWG_Principles_06112020_0.pdf). The ARWG is drafting a Valuation Manual chapter reflecting the principles that were previously outlined, and a recommended draft is expected in the Spring of 2021.

In addition, Bruce noted that the NAIC Subgroup recommended that a deterministic approach be included in VM-22, but they didn't opine on whether that should be included as a floor reserve or as an illustrative calculation to facilitate review. Bruce also mentioned an education call led by the ARWG and their consultant on preliminary modeling of results. Bruce did not see any "clean" takeaways from that discussion, but he thought the review was helpful from a general perspective.

LATF adopted the Subgroup report.

2. Interstate Insurance Product Regulation Commission (IIPRC) Update

Katie Campbell (IIPRC) provided the update (no materials). This included a review of the agenda for the IIPRC session during the NAIC National meeting. One item of note to LATF is that the IIPRC is considering an emergency rule to delay acceptance (within the Compact) of recent changes to the NAIC Model Regulation 805 for deferred annuities for 120 days. Normally, NAIC Model Regulations are automatically adopted by the Compact, but the delay will allow the Product Standard Committee to better assess the impact of implementation, since the revised model may conflict with state versions until those states adopt the revised model regulation.

One LATF member asked about interim nonforfeiture values of indexed linked VAs, noting that the Compact is working through standards for approval of these products without formal input from LATF (some members are involved because they may work on IIPRC committees). It was asked if LATF should address this before the IIPRC does or whether to review what they come up with and develop a requirement based on that. It was also discussed whether LATF should be more proactive with future new products. The disconnect may be that the Compact approves products in a manner that may not involve all LATF members. This will be discussed in 2021.

LATF took no action.

3. SOA Research and Education

Dale Hall (Society of Actuaries) outlined some of the SOA research projects that are of interest to LATF (page 27 of the LATF Session 1 Materials). One item of note is the recently released report on *Mortality By Socioeconomic Category In The United States*. This study looked at differences between insured populations and other populations. U.S. populations were stratified into 10 categories based on education, occupation, employment, income, home pricing and quality. Among the findings is that while mortality improvement across the US population was positive 1999-2018, there is quite a bit of variation between the categories. Future research on this topic will include adding data from 1982-1998 to the study, additional analysis of mortality improvement, and more research into understanding disparities by cause of death (this may help with understanding the impact of COVID-19).

Other research reports expected later this year or early 2021 include the impact of COVID-19 on Group Life mortality, and a study on individual life mortality, which will include the impact of COVID-19. See page 37 for more details on other reports.

LATF took no action.

4. Life Practice Council

Laura Hanson (Academy Life VP) led the discussion of LPC activities, which includes activities in 2020 and upcoming activities for 2021 (page 4 of the LATF Session 1 Supplemental Materials).

In 2020, the LPC:

- Developed a preliminary framework for VM-22, which LATF exposed for comment,
- Published a white paper on the Tax Cuts and Job Act (TCJA),
- Submitted a comment letter, together with the Academy's Pension Practice Council, to the Department of Labor on the Secure Act,
- Published a paper outlining PBR templates for analysis and reporting,
- Conducted an asset adequacy testing survey on how actuaries are dealing with this year's low interest rate environment (a report was released on December 4 on is available at https://www.actuary.org/sites/default/files/2020-12/AAT_final.pdf),
- Published a comment letter raising awareness of the impact of regulatory actions taken in states on underwriting and risk classification,
- Held a virtual PBR Boot Camp, with several regulatory actuaries participating as part of the faculty, and
- Participated in the November Academy Annual Meeting and Public Policy Forum.

2021 priorities include a Year-in-Review webinar in January, the 2021 Life and Health Valuation Law Manual, GAAP webinars (one on Long Duration Targeted Improvements and one on Disclosures), 2 more PBR Boot camps – one for first timers in June and one in Q3 that will focus on findings from the review of 2020 reports, providing support for the ESG transition (see the topic below), a field study for VM-22 reserves and C-3 requirements for non-variable annuities (in conjunction with the new ESG), developing recommended C-2 mortality factors, assisting in the implementation of new C-1 factors and C-2 longevity factors, publishing an addendum to the Practice Note on VM-21, commentary on mortality

improvement discussions, supporting the YRT reinsurance approach for VM-20, proposals for VM-51 data elements, publishing a Life Illustrations Practice Note Addendum, publishing FAQs on changes to tax reserve calculations and reporting under the TCJA, promoting diversity and inclusion, and publishing a Data Analytics Issue Paper.

LATF took no action.

5. Experience Reporting Subgroup Report

Dan Schelp (NAIC Legal Division) provided an update on questions around compliance with HIPPA confidentiality requirements with respect to VM-51 and Amendment Proposal Form 2019-56 (no materials were included). The NAIC is a statistical agent under VM-51, which includes requirements to preserve confidentiality of the data collected. Under the original VM-51, 46 data elements are collected from individual companies. APF 2019-56 was adopted to address accelerated underwriting (AUW), and this raised new concerns about confidentiality. Since AUW includes outside information and other non-traditional elements, VM-51 was expanded through this APF to capture additional information, intended to help reflect the impact of AUW in mortality tables. The APF includes a significant increase in the number of data elements being collected, but Dan noted that it does not change the nature of the data elements; and therefore, it doesn't increase the HIPPA exposure.

The NAIC retained a consulting firm that specializes in HIPPA to study the issues and to review the NAIC data systems. The consultant opined that the type of data being collected most likely won't be subject to HIPPA, since the NAIC is not a covered entity (i.e., it is not a healthcare entity or a clearinghouse as defined in HIPPA) or a business associate (i.e., it is not an entity that performs functions under a covered entity). While the consultant also opined that the NAIC is most likely not a business associate, the NAIC decided that it will implement policies and procedures to ensure they are consistent with HIPPA in the remote chance the NAIC is considered one. For example, confidentiality of data is addressed through an agreement with the Missouri Insurance Department, who is requiring the submission of the data.

LATF took no action.

6. Valuation Manual Amendments

LATF discussed three Amendment Proposal Forms (APF).

Tim Cardinal (Cardinalis Consulting) discussed APF 2020-08, which covers the calculation of company experience rates (page 43 of the LATF Session 1 Materials). The APF recommends a clarification and introduces a third permissible technique for company experience calculation. Brian Bayerle (ACLI) noted that while the ACLI viewed this APF as a benefit, the question needs to be asked whether, with the third technique, VM-20 will capture the universe of techniques. He questioned whether a more principle-based approach should be considered going forward. One regulator questioned whether the current requirements are really too prescriptive. They outline approaches that are needed, and moving to a pure principle-based approach will create more questions on how to proceed with this requirement. Another noted that ASOP 25 addresses credibility and should be followed.

LATF adopted the APF.

Mary Bahna-Nolan (representing the Academy Life Reserve Work Group) discussed Amendment Proposal Form (APF) 2019-33 (page 15 of the LATF Session 1 Supplemental Materials). The APF addresses the treatment of products filed as group life products, but that use procedures similar to underwriting for individual products. The APF includes 6 specific recommendation, that include reserve calculation and reporting requirements. This version is a modification to a previously exposed version.

LATF re-exposed the APF for 60 days.

Rachel Hemphill (TX) discussed APF 2020-09 (page 47 of the LATF Session 1 Materials). While this APF was adopted by LATF, a new APF 2020-11 (page 32 of the LATF Session 1 Supplemental Materials) is being introduced to further modify APF 2020-09. This new APF further clarifies the Life PBR Exemption requirements to note that a company doesn't need an exemption if it doesn't have any business subject to VM-20, and to include in the eligibility for exemption on-going life product features, such as conversion, on legacy business. If adopted, this would be included in the 2022 Valuation Manual, so the APF addresses 2020 and 2021 issued business.

LATF exposed the APF for 60 days.

Mary Bahna-Nolan also brought up the issue of the timing of data collection under VM-51. There is currently a 2-year lag in collecting the data, and companies were not required to submit data in 2020 due to COVID-19. Therefore, the next NAIC data collection will include data from 2018-19, but that won't be due until the end of 2021. Given the work that the SOA and the Academy Experience Committee does, this means results won't be available until May of 2022, at best. This results in a much longer lag. With recent changes to underwriting (e.g., AUW), there is a greater need for more recent data. Mary asked whether LATF should discuss changing the lag to one year. This would require future adjustments of unreported claims (IBNR), but this typically has a minimal impact. LATF chair Mike Boerner (TX) noted that this may need more discussion and perhaps an exposure of any concepts that are developed. It was also noted that there would be a need to coordinate this with industry and the NAIC. Mike asked LATF members to start thinking about this and he will work with NAIC staff on next steps.

LATF took no action.

7. Economic Scenario Generator (ESG)

Pat Alison (NAIC) led the discussion on the timeline of the project to implement a new ESG for principle-based reserve, RBC, and other uses (page 4 of the LATF Session 2 Materials). The goal is to have the new ESG prescribed for VM-20 and VM-21 effective 1/1/22, and for C-3 Phase 1 and C-3 Phase 2 effective 12/31/22. A link will be included on the NAIC website for information and documentation – ultimately this will include final documentation, training materials, scenarios and tools. Pat walked through the milestones in the timeline, including field testing. One comment raised was that it might be better to use 9/30 as an anchor date for year-end scenarios in the field test, rather than 12/31. It was noted that regular calls to track the progress of this project will begin in mid-December.

LATF next heard a discussion of the ESG from Dan Finn (Managing Director at Conning, the firm hired by the NAIC to build the generator). See page 4 of the LATF Session 2 Materials. This included a number of

goals. For each goal, the presentation includes background information for educational purposes, along with an underlying rationale, and similarities and differences between the Academy ESG and the new NAIC ESG. Items requiring decisions are also highlighted.

The goals include:

- The model's starting yield curve should match the actual starting yield curve as closely as possible;
- The model should produce a variety of yield curve shapes, and they should change over time;
- Interest rates can be negative;
- The model should be capable of producing a reasonable range of results for very long simulations;
- The ESG should be capable of producing low interest rates for an extended period of time;
- The model should produce interest rate levels that fluctuate significantly over long periods;
- The interest rate generator should be arbitrage free; and
- The ESG should be calibrated using an appropriate historical period.

The presentation also included recommendations for parameters, such as long-term and short-term yield mean levels and mean reversion targets, although it was noted that alternatives can be tested and exposed.

A recording of this discussion may be found at

<https://naic.webex.com/naic/ldr.php?RCID=487342334591416180de78cf011e32c1>

LATF took no action.

8. Other Matters

None.



Life RBC WG – The WG did not meet during the National Meeting. I will add updates on selected topics going forward.