

LIFE INSURANCE AND ANNUITIES (A) COMMITTEE

Life Insurance and Annuities (A) Committee August 15, 2023, Minutes

Life Insurance and Annuities (A) Committee July 19, 2023, Minutes (Attachment One)

Draft Pending Adoption

Draft: 8/29/23

Life Insurance and Annuities (A) Committee
Seattle, Washington
August 15, 2023

The Life Insurance and Annuities (A) Committee met in Seattle, WA, Aug. 15, 2023. The following Committee members participated: Judith L. French, Chair (OH); Carter Lawrence, Vice Chair, represented by Bill Huddleston and Toby Compton (TN); Mark Fowler (AL); Barbara D. Richardson (AZ); Philip Barlow (DC); Doug Ommen (IA); Justin McFarland (KS); James J. Donelon (LA); Eric Dunning (NE); Justin Zimmerman (NJ); Scott Kipper (NV); Adrienne A. Harris represented by John Finston (NY); Glen Mulready (OK); Scott A. White represented by Craig Chupp (VA); and Nathan Houdek (WI). Also participating were: Cynthia Amann (MO); Mike Chaney (MS); and Rachel Hemphill (TX).

1. Adopted its July 19 Minutes

Director French said the Committee met July 19. During this meeting, the Committee took the following action: 1) adopted its Spring National Meeting minutes; 2) adopted revisions to the *Valuation Manual*; and 3) adopted revised charges for the Life Actuarial (A) Task Force.

Commissioner Mulready made a motion, seconded by Huddleston, to adopt the Committee's July 19 minutes. (Attachment One). The motion passed unanimously.

2. Adopted the Report of the Life Actuarial (A) Task Force

Director French explained that the Accelerated Underwriting (A) Working Group has not met since the Spring National Meeting. She said a draft guidance document was exposed for public comment at the beginning of the year; however, to avoid potential conflicts and the duplication of efforts, the Working Group is on hold pending the completion of work underway under the Innovation, Cybersecurity, and Technology (H) Committee.

Director French said the Annuity Suitability (A) Working Group also has not met since the Spring National Meeting. She explained that the Working Group has plans to meet after the Summer National Meeting to continue its discussion of potential questions to add to the current frequently asked questions (FAQ) document related to the safe harbor/comparable standards provision in the revised *Suitability in Annuity Transactions Model Regulation* (#275). She said the Working Group did not meet while additional information was being gathered on how stakeholders are implementing the safe harbor/comparable standards provision to determine what additional questions should be added to the FAQ document.

Hemphill said the Life Actuarial (A) Task Force met Aug. 11–12, 2023. She said the Task Force received a presentation on state insurance regulator reviews of company filings for *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53). She said the Valuation Analysis (E) Working Group is performing reviews of AG 53 filings and coordinating with domestic regulators where outliers are identified. She said the Task Force will continue to coordinate with the Working Group to support the effectiveness of AG 53.

Hemphill said the Task Force exposed an amendment proposal form (APF) to allow for the listing of specific considerations (e.g., COVID-19) that companies must reflect in the companies' historical mortality improvement (HMI) rates. She said this change will promote greater consistency in how HMI rates are developed and thus allow greater flexibility for the Society of Actuaries (SOA) in the development of the future mortality improvement (FMI) rates.

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Hemphill said the Task Force continued discussion on the work to develop a replacement generator of economic scenarios (GOES), including hearing an update from the American Academy of Actuaries (Academy) on interest rate acceptance criteria and a presentation by NAIC staff on additional quantitative results from the Economic Scenario Generator Field Test. She said the Task Force discussed a focus on increasing efficiency as it moves forward, including relying on model office testing whenever possible, which is more timely and flexible than full field testing. She said the Task Force continues to be actively engaged with industry on this technical topic.

Hemphill said the Task Force received an update from the SOA on a planned educational redesign that seeks to increase international relevancy and add flexibility for candidates. She said several state insurance regulators expressed serious concern with one aspect of the planned redesign. The SOA described a plan to remove U.S. regulatory material from the required materials and move it to an optional regulatory certificate. Hemphill said the Task Force expressed that an understanding of U.S. laws and regulatory materials should be required for all actuaries practicing in the U.S., not just appointed actuaries. She said if the SOA were to remove this material, it is likely that the Fellow of the Society of Actuaries (FSA) designation would no longer be adequate for actuaries to be qualified to practice in the U.S. without first completing a supplemental regulatory course. She said the SOA was open to feedback, and the Task Force will be sending a written response reiterating these concerns and will continue engaging with the SOA.

Chupp made a motion, seconded by Acting Commissioner Zimmerman, to adopt the report of the Life Actuarial (A) Task Force. The motion passed unanimously.

3. Heard a Presentation on Risks Facing the Life Insurance and Annuities Industry

Steve Hazelbaker (Noble Consulting Services Inc.) gave a presentation on the risks and challenges facing the life and annuities industry. He said he would discuss some of the recognized risks to the industry, including: 1) the risks posed by InsurTech; 2) federal and international regulatory developments; 3) private equity (PE) firm relationships with insurers; and 4) inflation.

Hazelbaker said InsurTech offers a lot of opportunities, but it presents risks and challenges. He said InsurTech may affect company distribution, internal processes, company strategies, and maybe even the group organization structure. He said the use of artificial intelligence (AI) and its governance also presents potential risks and challenges with respect to data security and unintended consequences.

Hazelbaker said federal and international regulatory developments may affect life and annuity insurers, as well as PE firm relationships with insurers, particularly as money managers for annuity carriers, or their involvement with ownership interests.

Hazelbaker said another risk factor that affects life and annuity carriers is inflation. He said growth in the annuity market is a particular concern. He discussed two factors contributing to annuity growth: 1) pension risk transfers; and 2) multi-year guaranteed annuities (MYGAs). He said pension buyouts are happening more frequently, and people turn to life and annuity carriers because they understand the mortality and liquidity risks that are involved with pensions. Annuities are also able to match asset and liability durations. He said about 20 companies currently dominate the market in this area, but sales were up 42% in 2022. He said MYGA sales also contributed to growth in annuities. He said sales of MYGAs doubled in 2022. Not only is there market risk in meeting the guarantees associated with MYGAs, but they also present liquidity risk, particularly at the end of the guaranteed terms.

Hazelbaker said annuity growth continued in the first quarter of 2023, largely fueled by the increase in interest rates. A lot of people in the 55–70 age group that are typically interested in buying annuities, as well as equity volatility, contributed to annuity growth. Equity volatility also contributed to annuity growth; i.e., the value of existing bond holdings at lower interest rates declines as interest rates rise. Hazelbaker said disintermediation risk

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may come into play in the fixed annuity market when there are higher than expected surrenders and withdrawals from people seeking to get out of lower interest rate investments and buy higher yield investments. He said that introduces liquidity risk and market risk, and it emphasizes the importance of asset adequacy testing (AAT) by actuaries.

Hazelbaker discussed insurance investments. He said inflation and interest rate hikes can stress the banking sector, which indirectly affects life and annuity carriers. He said it may lead to the deterioration of corporate credit quality, which can lead to investment defaults. He said that can indirectly have an impact on equity valuations. He said people may be altering their investment strategies, which could lead to investments that are less liquid, more complex, have greater market volatility, have greater cash flow variability, and may involve affiliated investments to a greater extent. He said regulating investments is not getting any easier, and investments seem to evolve to meet guidelines but may be carrying more risks associated with those investments. He said some companies may be involved in selecting certain investments because of risk-based capital (RBC) arbitrage. He said the NAIC Capital Markets Bureau (CMB) recently put out a special report that addressed the impact of rising interest rates on U.S. insurer investments. He said there are several positive implications, like supporting investment income and benefitting life and annuity insurers' spread business. He said there also may be less pressure to invest in riskier assets to get the kind of yields that companies are seeking. He said life and annuity companies can also reinvest proceeds of maturing investments into investments that provide greater yields. He said the negative implications are that a company may have realized or unrealized losses due to the decline in the market value of fixed maturity investments. He also said existing mortgage loans at lesser rates could decline in market value, resulting in higher loan-to-value ratios.

Hazelbaker listed some additional risks and challenges to the industry that he puts on his personal list. He said he considers commercial real estate in the list of risk considerations that affect life and annuity insurers. He said the Mackenzie Consulting Group recently came out with a study indicating that commercial real estate may lose \$800 billion in value by 2030 based on a study involving nine major cities. He said reinsurance is complicated, but state insurance regulators need to be aware of the ceding and assuming activities of insurers and the related implications of inter-company reinsurance on life and annuity carriers. He said the retention of talent and intellectual capital is an ongoing challenge that successful companies will have to continue to meet. He said he also includes climate and other environmental factors on his list of challenges. He said climate and other environmental factors may affect the investments of life and annuity carriers, like fossil fuel holdings, mortgage loans depending on the location of the properties, and even the effect of mortality from a long-term perspective.

4. Heard a Presentation on the Unique Life Insurance Needs of the Military

Shawn Loftus (United Services Automobile Association—USAA) gave a presentation on the unique life insurance needs of the military and veterans. He said the USAA is focused on meeting the unique needs of this population. The USAA was founded in 1922 by 25 army officers. They decided to pool their money together to insure each other's vehicles because they were not able to get auto insurance. More than 100 years later, the USAA has grown to be a fully integrated financial services company. The USAA life insurance company was founded in 1963, and the Federal Savings Bank opened in 1983. Loftus said there are 37,000 employees across the U.S. and three overseas locations. He said the USAA is proud to provide exceptions, products, and services to the military community, including active duty service members, veterans, and their families.

Loftus explained that the military is a diverse community with unique needs. He said they are highly mobile. He said they move around frequently and can be deployed with very little notice, so accessibility and speed are important to them. He said they are also price-conscious. He said affordability is important, especially for enlisted members with limited discretionary income. He said they have dangerous and stressful jobs. He said they need products, services, and advice tailored to their needs, and they deserve the very best service levels. He said to serve these unique needs, the USAA has developed products and services tailored to fit the military community.

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For example, the USAA offers no charge riders to currently serving military members to address severe injuries and military separation. Loftus said USAA partners with other carriers to offer products customized to the veteran community. He said the underwriting programs and guidelines are tailored to the unique jobs and needs of the military. He said they offer advice for unique circumstances like deployment. He said a deployment call can take a couple of hours, and members are walked through a lengthy checklist to help them get their accounts in order before they leave. He said the USAA survivor relations team is a specially trained group that compassionately helps surviving family members settle all their accounts across life insurance, property/casualty (P/C) insurance, and banking when there is a loss of a loved one. He said too often, the cause of the loss is suicide.

Loftus said mental health and suicide prevention are top issues of concern for the USAA. He said since the start of this century, more than 120,000 veterans have died by suicide. He said the veteran suicide rate is currently 1.5 times that of the general population. In June, the USAA announced the launch of a national campaign and coalition to address this national crisis. It is called "Face the Fight." He said "Face the Fight" is a coalition of foundations, nonprofits, and veteran-focused organizations that have joined together to raise awareness and support for veteran suicide prevention. He said the aspiration is to cut the suicide rate in half by 2030. He said the mission of the initiative is to: 1) break the stigma of seeking help; 2) increase the conversation about the problem; and 3) complement the efforts of the U.S. Department of Veterans Affairs (VA), the U.S. Department of Defense, and many others to stop veteran suicide. More information can be found at [facethefight.org](https://www.facethefight.org) or by emailing USAA@ElizabethDoleFoundation.org.

Loftus said the USAA recognizes that there is no simple solution to this complex problem. He said there are many organizations and public agencies that are leading impactful efforts to help decrease veteran suicide, and "Face the Fight" wants to add its support and amplify what others are already doing. He said as part of "Face the Fight," individuals and groups of people are being asked to stand together and be a supportive network to our veterans. He said veteran suicide is not inevitable. When people face this fight together, there is hope. Loftus said veterans have long served this country with great dignity, honor, and duty, and it is our collective responsibility to help protect, support, and honor those who dedicated their lives to protect us. In response to a question by Director Richardson, Loftus further discussed the relationship between mental illness and suicide and how quickly suicidal ideations can occur. Commissioner Chaney mentioned that during the COVID-19 crisis, the Mississippi Insurance Department issued a telemedicine bulletin allowing access to mental health services remotely that saved over 50 suicide lives.

5. Heard an Update on the Life Workstream of the Special (EX) Committee on Race and Insurance

Director French said the Life Workstream of the Special (EX) Committee on Race and Insurance met July 20. She said the Workstream discussed its next steps as it continues to focus on its charge to consider "marketing, distribution and access to life insurance products in minority communities, including the role that financial literacy plays." She said the Workstream is planning to move ahead and create a "resource guide" to be developed in cooperation with the NAIC Diversity, Equity, and Inclusion (DE&I) Division and the State Diversity Leaders.

Director French explained that the Workstream envisions developing a guide that includes information helpful to all insurance departments looking to take action to improve access and understanding in underserved communities. She said a list of questions was distributed during the State Diversity Leaders Forum on July 24 to start to catalog state activity.

Director French said the Workstream also plans to hold meetings to hear some additional presentations. She said the Workstream plans to hear a presentation from Colorado, as well as a presentation from another state on a call in early October.

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Director French said several stakeholders expressed an interest in sharing resources and information for possible inclusion in the resource guide. The Workstream anticipates holding an additional call to hear from consumer representatives and industry stakeholders that expressed an interest in sharing.

Brenda J. Cude (University of Georgia) offered her assistance on the resource guide. Jennifer Cook (NAIC) said she would be working on the resource guide and reach out to Dr. Cude.

6. Discussed Other Matters

Director French said Tennessee organized the presentations for this meeting, and she welcomes other states similarly organizing future presentations to bring information to the Life Insurance and Annuities (A) Committee. Also, if there are other groups out there with information to share, she said they should reach out to Cook.

Birny Birnbaum (Center for Economic Justice—CEJ) expressed several concerns with the work of the Committee. He said he was unclear as to why the work of the Accelerated Underwriting (A) Working Group has been put on hold. He said efforts to address accelerated underwriting have been underway at the NAIC for seven years. He said it is unclear what efforts at the Innovation, Cybersecurity, and Technology (H) Committee are needed for the Working Group to offer guidance on (e.g., the use of consumer credit information and biometrics, both of which have been shown to be problematic). He said the NAIC had a session two years ago on bias in facial recognition.

Birnbaum asked whether there was a time frame for the receipt of the guidance from the Innovation, Cybersecurity, and Technology (H) Committee such that the Working Group can continue its work. He said the draft governance model that was developed by the Committee does not overlap with the specific consumer protection risks and regulatory guidance associated with accelerated underwriting.

Birnbaum said the NAIC completed the AI Principles three years ago. He said the AI Principles were intended to guide the work of NAIC committees and working groups regarding specific applications of AI, such as accelerated underwriting. He said instead of using that guidance, all the AI work of NAIC committees and working groups has gone to the Innovation, Cybersecurity, and Technology (H) Committee, where the issue appears to disappear.

Peter Kochenburger (Southern University School of Law) expressed his support for the concerns raised by Birnbaum regarding waiting until the Innovation, Cybersecurity, and Technology (H) Committee finishes its work on the bulletin. He said waiting for another high-level document that will not advance the discussion of the tougher issues facing accelerated underwriting simply delays for another year the substantive guidance and consumer protections that were promised in the AI Principles adopted three years ago. He said it seems like an unnecessary delay.

Commissioner Houdek provided an update about the work of the Accelerated Underwriting (A) Working Group and coordination with the Innovation, Cybersecurity, and Technology (H) Committee. He explained that the Committee is working on a model governance bulletin that has a broader scope than the accelerated underwriting guidance document, and it makes sense to pause the work of the Working Group until after the bulletin is completed to ensure the work products are aligned. He said once the bulletin is adopted, the Working Group will assess next steps and determine whether any adjustments are needed to the accelerated underwriting regulatory guidance document in light of the model governance bulletin.

Amann explained that the work of the Working Group began many years ago and started with the development of an informational paper, but the technology advanced ahead of the Working Group. She explained that the educational paper developed by the Working Group was a precursor to best practices or a model, and now that there are other groups like the Innovation, Cybersecurity, and Technology (H) Committee focusing on issues such

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as AI, machine learning (ML), and other issues that affect the conclusions the Working Group may come to, there needs to be coordination.

Birnbaum expressed concern about the lack of progress by the Annuity Suitability (A) Working Group on the FAQ document addressing the safe harbor/comparable standards provision in the revised Model #275. He said the question of how to interpret and enforce the safe harbor provision has been a contentious question for a while. He said the Market Conduct Examination Guidelines (D) Working Group has been attempting to develop exam guidance related to the updated Model #275, but that effort has been stymied by the lack of clarity regarding the safe harbor provision from the Annuity Suitability (A) Working Group.

Commissioner Ommen provided an update about the progress of the Annuity Suitability Working Group. He explained that Model #275 has been adopted in over 40 states, and while he cannot speak to all the states, in Iowa they are undertaking reviews of the implementation by insurance companies, paying close attention to the use of the safe harbor principles. He said he appreciated Birnbaum's interest in more public discussion about the application of the safe harbor, and he anticipates that states will at some point have best practices with respect to the safe harbor to ensure that there is consistency and uniformity in the marketplace.

Birnbaum reiterated his longstanding concerns regarding illustrations. He said the Life Actuarial (A) Task Force proposed and the Life Insurance and Annuities (A) Committee adopted AG 49-B as a short-term fix to deceptive indexed universal life (IUL) illustrations. He said the Task Force and the Committee acknowledged that illustrations suffered from other problems. He said the illustration model was developed and adopted before indexed products appeared in the marketplace. He asked why there has not been any activity on life insurance and annuity illustrations.

Birnbaum asked why the Life Workstream of the Special (EX) Committee on Race and Insurance is focusing on financial literacy. He said he did not understand how financial literacy addresses the availability and affordability of life insurance in underserved communities or the design of products that address the needs of underserved communities. He said the focus on financial literacy suggests that the problem is with buyers and not sellers.

Director French explained that the Life Workstream of the Special Committee had a number of charges, but it had been and continues to be focused on its charge to consider "marketing, distribution and access to life insurance products in minority communities, including the role that financial literacy plays."

Having no further business, the Life Insurance and Annuities (A) Committee adjourned.

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Life Insurance and Annuities (A) Committee
Virtual Meeting
July 19, 2023

The Life Insurance and Annuities (A) Committee met July 19, 2023. The following Committee members participated: Judith L. French, Chair (OH); Carter Lawrence, Vice Chair (TN); Barbara D. Richardson (AZ); Karima M. Woods represented by Phillip Barlow (DC); Doug Ommen (IA); Vicki Schmidt (KS); James J. Donelon (LA); Eric Dunning (NE); Justin Zimmerman (NJ); Adrienne A. Harris represented by Bill Carmello (NY); Scott A. White represented by Craig Chupp (VA) and Nathan Houdek (WI). Also participating was: Rachel Hemphill (TX).

1. Adopted its Spring National Meeting Minutes

Commissioner Lawrence made a motion, seconded by Commissioner Ommen, to adopt the Committee's April 14 minutes (*see NAIC Proceedings – Summer 2023, Life Insurance and Annuities (A) Committee*). The motion passed unanimously.

2. Adopted 2024 Valuation Manual Amendments

Hemphill said the Life Actuarial (A) Task Force adopted 12 amendment proposal forms (APFs) to be effective for the 2024 *Valuation Manual*. She said the APFs fall into three categories: 1) APFs primarily adding documentation in reporting (2022-06, 2022-09, 2023-02, and 2023-04); 2) APFs primarily clarifying requirements or correcting typos (2022-07, 2022-10, 2023-01, and 2023-03); and 3) APFs making more substantive changes to requirements (2021-08, 2022-08, 2023-05, and 2023-07). Hemphill summarized the substance of this third category of APFs.

Hemphill said that APF 2021-08 reduces the reporting lag for VM-51, Experience Reporting Formats, from two years to one year to gather more timely industry mortality data and thus allow more timely creation of mortality tables. She said that APF 2022-08 makes variable annuities that are exempt from complex modeling have reduced VM-G, Appendix G – Corporate Governance Guidance for Principle-Based Reserves, governance requirements, analogous to the treatment already in place for life principle-based reserving. She said APF 2023-05 allows alternate hedge modeling and hedge error reflection for variable annuities indexed credit hedging programs, reflecting the distinct nature of these hedging programs. She said APF 2023-07 removes one of two methods available to companies for calculating part of VM-21, Requirements for Principle-Based Reserves for Variable Annuities, reserve requirements, effective in 2025, due to this method being rarely used. She said only two companies are affected by this change. One company is immediately able to use the more common method, and the other will be able to use the other method by 2025 and is directly working with its domestic regulator to effectuate the change.

Director Richardson made a motion, seconded by Commissioner Lawrence, to adopt the 2024 *Valuation Manual* amendments. The motion passed unanimously.

3. Adopted Amended Life Actuarial (A) Task Force Charges.

Hemphill explained that on June 15, the Life Actuarial (A) Task Force voted to adopt its updated charges, which include: 1) the removal of the Indexed-Linked Variable Annuities (ILVA) Subgroup. Hemphill said the Subgroup completed its charges when the Task Force adopted Actuarial Guideline LIV—Nonforfeiture Requirements for Index-Linked Variable Annuity Products (AG 54); and 2) the addition of the Generator of Economic Scenarios (E/A)

Subgroup and its charges. Hemphill explained that state insurance regulators and interested parties agreed that a formal subgroup was needed to have a robust and proactive approach to future economic scenario generator (ESG) maintenance and updates, including to: a) oversee the ESG governance framework; b) review material generator updates; c) monitor economic conditions for any signal that there is a need for additional generator updates; d) support generator implementation; and e) maintain generator acceptance criteria. Mike Yanacheak (IA) and Pete Weber (OH) have agreed to serve as Subgroup chair and vice chair, respectively.

Carmello made a motion, seconded by Director Dunning, to adopt the amended Life Actuarial (A) Task Force charges. The motion passed unanimously.

4. Discussed Other Matters

Jennifer Cook (NAIC) said that the agenda for the Special (EX) Committee on Race and Insurance Life workstream meeting on July 20 has changed. The Colorado presentation has been postponed to a future meeting. The workstream will still meet to discuss its next steps.

Having no further business, the Life Insurance and Annuities (A) Committee adjourned.

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