MEETING MATERIALS PACKET LIFE

ACTUARIAL (A) TASK FORCE

August 11-12, 2023

NAIC SUMMER NATIONAL MEETING

August 11-12, 2023

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Draft date: 8/1/23

2023 Summer National Meeting
Seattle, Washington

LIFE ACTUARIAL (A) TASK FORCE
Friday, August 11, 2023
8:00 a.m. – 4:30 p.m. PT
Hyatt Regency Seattle—Columbia Ballroom CD—Level 3

Saturday, August 12, 2023
8:00 a.m. – 11:00 a.m. PT
Hyatt Regency Seattle—Columbia Ballroom CD—Level 3

ROLL CALL

Member	Representative	State
Cassie Brown, Chair	Rachel Hemphill	Texas
Scott A. White, Vice Chair	Craig Chupp	Virginia
Mark Fowler	Sanjeev Chaudhuri	Alabama
Lori Wing-Heier	Sharon Comstock	Alaska
Ricardo Lara	Ahmad Kamil	California
Andrew N. Mais	Wanchin Chou	Connecticut
Dana Popish Severinghaus	Vincent Tsang	Illinois
Amy L. Beard	Scott Shover	Indiana
Doug Ommen	Mike Yanacheak	Iowa
Vicki Schmidt	Nicole Boyd	Kansas
Timothy N. Schott	Marti Hooper	Maine
Grace Arnold	Fred Andersen	Minnesota
Chlora Lindley-Myers	William Leung	Missouri
Eric Dunning	Michael Muldoon	Nebraska
D.J. Bettencourt	Jennifer Li	New Hampshire
Justin Zimmerman	Seong-min Eom	New Jersey
Adrienne A. Harris	Bill Carmello	New York
Judith L. French	Peter Weber	Ohio
Glen Mulready	Andrew Schallhorn	Oklahoma
Michael Humphreys	Steve Boston	Pennsylvania
Jon Pike	Tomasz Serbinowski	Utah
Allan L. McVey	Tim Sigman/Joylynn Fix	West Virginia

NAIC Support Staff: Scott O'Neal/Jennifer Frasier

AGENDA

Friday, August 11, 2023

8:00 – 8:15 a.m.	1. Call to Order/Roll Call/Consider Adoption of its Minutes and Written Subgroup Reports—*Rachel Hemphill (TX)*
8:15 – 8:30 a.m.	2. Receive the Report of the Valuation Manual (VM)-22 Subgroup —*Ben Slutsker (MN)*
8:30 – 9:30 a.m.	3. Hear Presentation on Findings from Regulator Reviews of Company Filings for Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves (AG 53)—Ben Slutsker (MN), Fred Andersen (MN)
9:30 – 9:45 a.m.	Break
9:45 – 10:15 a.m.	4. Discuss VM-20, Requirements for Principle-Based Reserves for Life Products, Historical and Future Mortality Improvement Factors —*Marianne Purushotham (Society of Actuaries—SOA)*
10:15 – 10:30 a.m.	5. Consider Exposure of Amendment Proposal Form (APF) 2023-09, Historical and Future Mortality Improvement Consistency —*Rachel Hemphill (TX)*
10:30 – 12:00 p.m.	6. Hear a Presentation on Interest Rate Acceptance Criteria for the Generator of Economic Scenarios (GOES)—*Jason Kehrberg (American Academy of Actuaries—Academy)*
12:00 – 1:30 p.m.	Lunch
1:30 – 3:00 p.m.	7. Hear a Presentation on the C-3 Phase I GOES Field Test Results —*Scott O'Neal (NAIC)*
3:00 – 3:30 p.m.	Break
3:30 – 3:45 p.m.	8. Hear an Update from the Interstate Insurance Product Regulation Commission (Compact)—*Katie Campbell (Compact)*
3:45 – 4:30 p.m.	9. Hear an Update on Pre-Tax Versus Post-Tax Interest Maintenance Reserves (IMRs)—*Craig Morrow (Academy) and Academy Life Valuation Committee*

Saturday, August 12, 2023

8:00 – 8:35 a.m.	10. Hear an Update on SOA Research and Education—*Cindy MacDonald (SOA) and Stuart Klugman (SOA)*
8:35 – 8:50 a.m.	11. Hear an Update from the Academy Council on Professionalism and Education—*Ken Kent (Academy), Laura Hanson (Actuarial Standards Board—ASB) and Shawna Ackerman (Actuarial Board for Counseling and Discipline—ABCD)*
8:50 – 9:05 a.m.	12. Hear an Update from the American Academy of Actuaries (Academy) Life Practice Council—*Ben Slutsker (Academy) and Amanda Barry-Moilanen (Academy)*
9:05 – 9:20 a.m.	13. Consider Exposure of the Generally Recognized Expense Tables (GRETs)—Tony Phipps (SOA)
9:20 – 9:35 a.m.	Break
9:35 - 10:20 a.m.	14. Discuss IMR Guidance, APF 2023-08, and IMR Template—*Rachel Hemphill (TX)*
10:20 – 11:00 a.m.	15. Discuss Any Other Matters Brought Before the Task Force
11:00 a.m.	16. Adjournment

Agenda Item 1

Consider Adoption of its Minutes

and Written Subgroup Reports

Draft: 8/2/23

Life Actuarial (A) Task Force
Virtual Meeting
July 20, 2023

The Life Actuarial (A) Task Force met July 20, 2023. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill; Scott A. White, Vice Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Ricardo Lara represented by Ahmad Kamil (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Dana Popish Severinghaus represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Timothy N. Schott represented by Marti Hooper (ME); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Chlora Lindley-Myers represented by William Leung (MO); Eric Dunning represented by Michael Muldoon (NE); D.J. Bettencourt represented by Jennifer Li (NH); Justin Zimmerman represented by Seong-min Eom (NJ); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Glen Mulready represented by Andrew Schallhorn (OK); and Michael Humphreys represented by Steve Boston (PA).

1. Adopted its Spring National Meeting Minutes

Hemphill noted that the Task Force would be considering whether to adopt its Spring National Meeting minutes. Chupp noted two error corrections to the table of contents in the Spring National Meeting minutes packet.

Yanacheak made a motion, seconded by Chupp, to adopt the Task Force's March 20–21 minutes with the error corrections mentioned by Chupp (*see NAIC Proceedings – Spring 2023, Life Actuarial (A) Task Force*). The motion passed unanimously.

2. Exposed the 2023 VM-20 HMI and FMI Recommendation

Marianne Purushotham (Society of Actuaries—SOA) walked through a presentation on the Mortality Improvements Life Working Group (MILWG) 2023 recommendation (Attachment A) for the VM-20, Requirements for Principle-Based Reserves for Life Products, historical mortality improvement (HMI) and future mortality improvement (FMI) rates. Chou asked why there was a big difference in the youngest attained ages between the smoothed and unsmoothed rates. Purushotham said that there was a lack of data at those ages and that she would provide additional information on the proportion of data at those ages. Chou then asked about the variation in the COVID-19 shock impact between the attained ages in the FMI rates. Purushotham noted that the data the SOA used to determine the impact showed a lot of variation by age. Chupp asked why the 2026 projection year FMI rate was not zero across all ages, given the earlier description of the methodology. Purushotham stated that she would follow up on that question.

Chupp made a motion, seconded by Chou, to expose the 2023 VM-20 HMI and FMI recommendation for a 30-day public comment period ending Aug 23, 2023. The motion passed unanimously.

Having no further business, the Life Actuarial (A) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2023-2-Summer/LATF Calls/07 20/July 20 Minutes.docx

Draft: 7/17/23

Life Actuarial (A) Task Force
Virtual Meeting
June 15, 2023

The Life Actuarial (A) Task Force met June 15, 2023. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Ricardo Lara represented by Ahmad Kamil (CA); Andrew N. Mais represented by Wanchin Chou (CT); Dana Popish Severinghaus represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Timothy N. Schott represented by Marti Hooper (ME); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Chlora Lindley-Myers represented by William Leung (MO); Eric Dunning represented by Michael Muldoon (NE); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT).

1. Adopted its Amended Charges

Hemphill walked through the Task Force's amended charges, noting that the changes reflect the removal of the Index-Linked Variable Annuity (A) Subgroup and the addition of the Generator of Economic Scenarios (GOES) (E/A) Subgroup.

Leung made a motion, seconded by Slutsker, to adopt the amended charges (Attachment B), noting that the charges of the ILVA (A) Subgroup had been met and that the GOES (E/A) Subgroup would have Mike Yanacheak (IA) as Chair and Weber as Vice-Chair. The motion passed unanimously.

2. Considered its Response to the Statutory Accounting Principles (E) Working Group Referral on Negative IMR

Hemphill walked through a written response (Attachment B) to the Statutory Accounting Principles (E) Working Group referral on negative interest maintenance reserve (IMR). Carmello suggested that the impetus for the request from the Working Group to build an IMR reporting template was that the template could then be used to justify admitting negative IMR. Hemphill responded that the Task Force's response would indicate that asset adequacy testing (AAT), given the lack of prescription, was not an effective guardrail to justify admitting negative IMR. Carmello further inquired if part of the functionality of the template would track whether the proceeds from the sales of bonds that drove negative IMR balances were used to reinvest in new bonds. Hemphill noted that the next agenda item would be to discuss the potential exposure of the IMR template and that the purpose of the template was to contain additional disclosures that would allow a reviewing actuary to understand how negative IMR is being handled, regardless of whether the Working Group decides to allow negative IMR to be admitted.

Hearing no objection from Task Force members, Hemphill said that the written response would be referred to the Working Group.

3. Exposed the IMR Template

Hemphill discussed the IMR template (Attachment C) that would be a component of the Task Force's work product related to the negative IMR referral from the Working Group. Leung asked if the template would apply to both companies that have negative total IMR balances and those that have positive overall IMR balances. Hemphill noted that: 1) the focus would be on companies that have total company negative IMR balances but could also be useful for companies with positive total company IMR balances; and 2) initially, the template would be optional

and filled out at the request of regulators. Leung then noted some editorial and error corrections to the template, which Hemphill agreed to change. Brian Bayerle (American Council of Life Insurers—ACLI) requested that the length of the exposure period be the maximum number of days that would still allow for discussion at the Summer National Meeting.

Chupp made a motion, seconded by Leung, to expose the IMR template with the editorial and error corrections that were discussed for a 44-day public comment period ending July 28. The motion passed unanimously.

Having no further business, the Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2023-2-Summer/LATF Calls/06 15/June 15 Minutes.docx

Draft: 6/28/23

Life Actuarial (A) Task Force
Virtual Meeting
June 1, 2023

The Life Actuarial (A) Task Force met June 1, 2023. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill; Scott A. White, Vice Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Ahmad Kamil and Thomas Reedy (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Dana Popish Severinghaus represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Chlora Lindley-Myers represented by William Leung (MO); Eric Dunning represented by Michael Muldoon (NE); Marlene Caride represented by Seong-min Eom (NJ); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT); Allan L. McVey represented by Tim Sigman (WV).

1. Adopted APF 2023-05

Chupp walked through a series of editorial changes that had been made to amendment proposal form (APF) 2023-05 in response to his comment letter (Attachment A). Hemphill noted that the Task Force still needed to decide on the final minimum index credit hedging error. Brian Bayerle (American Council of Life Insurers – ACLI) noted a preference for a 1% minimum hedging error, further stating that a higher minimum error could penalize companies with a very tight hedging strategy. Weber stated that from his experience reviewing Ohio domiciled companies, he has seen hedging errors very close to zero, making the 1% minimum hedging error a reasonable guardrail. Reedy noted a preference for a 2% minimum guardrail and noted it could be revisited at a later date if warranted. Given the disagreement, Hemphill asked Jennifer Frasier (NAIC) to conduct a straw poll. Frasier conducted the poll, then noted that there was a fairly even mix between members supporting a one percent guardrail and members supporting a two percent guardrail.

Weber made a motion, seconded by Tsang, to adopt APF 2023-05 (Attachment B) with a minimum index credit hedging error of 1.5%. The motion passed unanimously.

2. Adopted 2023-07

Bayerle spoke the ACLI's comment letter (Attachment C) regarding APF 2023-07, noting that the ACLI requests that regulators work closely with any companies that would be impacted by the removal of the Company-Specific Market Path (CSMP) method from VM-21, Requirements for Principle-Based Reserves for Variable Annuities. Hemphill noted that the CSMP method was very infrequently used and that outreach to the affected companies had already begun.

Slutsker made a motion, seconded by Reedy, to adopt APF 2023-07 (Attachment D). During discussion of the motion, Reedy asked to make an editorial adjustment to make the effective date "on or after" January 1st rather than simply "after". Slutsker agreed to modify the motion for the editorial adjustment suggested by Reedy. The motion passed unanimously.

3. Exposed IMR Guidance and APF 2023-08

Hemphill said given that the Statutory Accounting Principles (E) Working Group is considering admitting some portion of negative interest maintenance reserves (IMRs), the Task Force would consider issuing additional temporary guidance effective starting year-end 2023 to ensure that the NAIC's reserve and capital standards are consistent with the IMR accounting treatment. Hemphill also noted that APF 2023-08 had been developed to clarify the IMR treatment consistent with the guidance but could only be effective for the 2025 Valuation Manual at the earliest. Bayerle requested a 45-day exposure period for the IMR guidance and APF 2023-08.

Leung made a motion, seconded by Chou, to expose the IMR Guidance (Attachment E) and APF 2023-08 (Attachment F) for 45-day public comment period. The motion passed unanimously.

4. Heard Update on VM-20 HMI and FMI Rate Development

Marianne Purushotham (Society of Actuaries – SOA) noted that she intended to present a recommended set of historical and future mortality improvement (HMI and FMI) rates for use in VM-20, Requirements for Principle-Based Reserves for Life Products at the June 29th meeting of the Task Force. Purushotham noted that given the continued impacts of the COVID-19 virus and the VM-20 requirements related to HMI and FMI, the group would recommend continuing with the approach that was used last year where the mortality deterioration resulting from COVID-19 would be included in the FMI rates in the initial projection years. Hemphill noted that the Task Force would consider amendments to the Valuation Manual in the future to allow for potential methodology improvements, but that the approach Purushotham laid out made sense. As no Task Force members objected to the approach, Purushotham said that her group would move forward with developing the recommendation.

5. Heard Update on IMR Template Development

Hemphill noted that a template to gather additional information on how companies report IMR was being developed to help address concerns with total company negative IMR balances. Hemphill further stated that the template had been shared with the American Academy of Actuaries (Academy) to receive feedback and would be exposed on an upcoming call.

Having no other business, the Task Force adjourned.

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Draft: 7/3/23

Life Actuarial (A) Task Force
and the Life Risk-Based Capital (E) Working Group
May 18, 2023

The Life Actuarial (A) Task Force met May 18, 2023, in joint session with the Life Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Ahmad Kamil (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Dana Popish Severinghaus represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Chlora Lindley-Myers represented by William Leung (MO); Marlene Caride represented by Seong-min Eom (NJ); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT). The following Working Group members participated: Philip Barlow, Chair (DC); Sanjeev Chaudhuri (AL); Thomas Reedy (CA); Wanchin Chou (CT); Dalora Schafer (FL); Mike Yanacheak (IA); Vincent Tsang (IL); Fred Andersen (MN); William Leung (MO); Seong-min Eom (NJ); Bill Carmello (NY); Andrew Schallhorn (OK); Rachel Hemphill (TX); and Tomasz Serbinowski (UT).

1. Discussed VM-20, Requirements for Principle-Based Reserves for Life Products, GOES Field Test Results

Hemphill said that Scott O'Neal (NAIC) would present results from the generator of economic scenarios (GOES) field test. O'Neal walked through the presentation of results (Attachment A). Mark Tenney (Mathematical Finance Company) asked whether the universal life with secondary guarantee (ULSG) model office results that Matt Kauffman (Moody's Analytics) presented showing approximately a doubling of reserves were consistent with the GOES field test participant results. O'Neal replied that although the average results of the participants were much less significant than the increases shown in the model office testing, there were some participants with ULSG products that did experience reserve increases in line with those shown in the model office testing.

Having no further business, the Life Actuarial (A) Task Force and Life Risk-Based Capital (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2023-2-Summer/LATF Calls/05 18/May 18 Minutes.docx

Draft: 7/3/23

Life Actuarial (A) Task Force
Virtual Meeting
May 11, 2023

The Life Actuarial (A) Task Force met May 11, 2023. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Ahmad Kamil (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Dana Popish Severinghaus represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Chlora Lindley-Myers represented by William Leung (MO); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT).

1. Adopted APF 2021-08

Hemphill said that the Task Force would be considering adoption of amendment proposal form (APF) 2021-08. Brian Bayerle (American Council of Life Insurers—ACLI) walked through the ACLI's comment letter (Attachment A), noting a concern with the language that could potentially not allow companies wishing to choose a claim cutoff date later than April 1. Angela McNabb (NAIC) explained that the language in APF 2021-08 would allow for companies to use a claim cutoff date later than April 1. Bayerle agreed and thanked McNabb for looking into the concern.

Weber made a motion, seconded by Leung, to adopt APF 2021-08 (Attachment B). The motion passed unanimously.

2. Re-Exposed APF 2023-05

Hemphill said that APF 2023-05, which revised the modeling of hedging for index-based crediting, had been modified after the prior exposure to address comments that the Task Force received. Bayerle walked through the ACLI's comment letters (Attachment C and Attachment D). Chupp noted issues with the currently proposed language in Section 4.A.4.b.iii of the APF where it could be implied that only a company with a strategy that combined index credits, guaranteed benefits, and other risks would not be eligible for the hedge treatment in Section 4.A.4.b.i, rather than the intent of a company that combined any of those elements. The Task Force discussed the issue, and Hemphill suggested replacing the language with "and/or" to imply that any combination of the previously mentioned benefits would not be eligible for the hedge treatment in 4.A.4.b.i. Chupp then pointed out an incorrect reference and another error correction in the APF language.

Maambo Mujala (American Academy of Actuaries—Academy) spoke about the Academy's comment letter (Attachment E), specifically noting that margin accounting for hedge error should only be applied to the portion of the index that is hedged given that many companies do not hedge 100% of their index-based credited interest. Bayerle noted that he supports making a language change in the re-exposure of 2023-05 to capture the comment from the Academy. Slutsker asked for an example of hedging less than 100% of the index credit. Mujala responded that companies do not typically hedge 100% of the index credit due to expected decrements.

Hemphill noted that an additional comment letter was received from Risk & Regulatory Consulting (RRC) (Attachment F). The letter was generally supportive of APF 2023-05, but it had questions on the rationale behind the parameters.

Slutsker made a motion, seconded by Leung, to expose APF 2023-05 with the edits that Chupp and the Academy suggested for a 16-day public comment period ending May 26. The motion passed unanimously.

Having no further business, the Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2023-2-Summer/LATF Calls/05 11/May 11 Minutes.docx

Draft: 6/26/23

Life Actuarial (A) Task Force
Virtual Meeting
May 4, 2023

The Life Actuarial (A) Task Force met May 4, 2023. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill; Scott A. White, Vice Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Ahmad Kamil (CA); Andrew N. Mais represented by Wanchin Chou and); Doug Ommen represented by Mike Yanacheak (IA); Dana Popish Severinghaus represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Timothy Schott represented by Marti Hooper (ME); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT).

1. Considered LATF Response to VOSTF Referral – Bond Risk Measures

Hemphill walked through the proposed response (Attachment A) to the Valuation of Securities (E) Task Force (VOSTF) referral related to bond risk measures. Hemphill asked if there was any objection from a Task Force member to the response to the VOSTF referral. As no Task Force members objected, Hemphill noted that the response would be sent to VOSTF.

2. Exposed APF 2023-07 – Company Specific Market Paths (CSMP) Removal

Slutsker introduced amendment proposal form (APF) 2023-07 that removes the Company-Specific Market Path (CSMP) standard projection amount method from the VM-21, Requirements for Principle-Based Reserves for Variable Annuities requirements. Slutsker noted that there has been very little usage of the CSMP method among companies and that adapting the method for the new generator of economic scenarios would require a significant effort. Slutsker said that the CSMP method would be removed starting in 2025 which would give companies ample time to prepare.

Slutsker made a motion, seconded by Chupp, to expose APF 2023-07 (Attachment B) for a 21-day public comment period ending May 24. During discussion of the motion, Weber asked if there had been communication with the companies who would be affected by the removal of the CSMP method. Hemphill replied that there had been a survey conducted to determine the number of companies that use the CSMP method and that additional communication with the affected companies had taken place to allow those companies to provide feedback. The motion passed unanimously.

Having no further business, the Life Actuarial (A) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2023-2-Summer/LATF Calls/05 04/May 04 Minutes.docx

Draft: 6/28/23

Life Actuarial (A) Task Force
Virtual Meeting
April 27, 2023

The Life Actuarial (A) Task Force met April 27, 2023. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Ahmad Kamil (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Dana Popish Severinghaus represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Eric Dunning represented by Michael Muldoon (NE); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT).

1. Re-Exposed APF 2021-08

Larry Bruning (Society of Actuaries—SOA) noted that the purpose of amendment proposal form (APF) 2021-08 is to shorten the data lag period for the mortality experience data collection from two years to one year. Hemphill said that there was one comment received from the American Council of Life Insurers (ACLI) (Attachment A). Angela McNabb (NAIC) stated that in response to the comment letter, the previously exposed version of APF 2021-08 had been modified to: 1) require that companies include terminations that were reported before April 1 following the year of the data collection instead of the following July 1; and 2) allow for corrected submissions to be submitted by Feb. 28 of the year following the reporting calendar year instead of by Dec. 31 of the reporting calendar year. Brian Bayerle (ACLI) said that he thinks the changes were responsive to their comment letter.

Chupp made a motion, seconded by Andersen, to expose APF 2021-08 (Attachment B) for a 10-day public comment period ending May 8. The motion passed unanimously.

2. Consider the IMR Referral from the Statutory Accounting Practices (E) Working Group

Hemphill walked through a Statutory Accounting Practices (E) Working Group referral (Attachment C) regarding negative interest maintenance reserve (IMR) balances. Hemphill proposed that the Task Force responds to the referral by: 1) drafting a template with additional disclosures on the reflection of IMR in principle-based reserving (PBR) and asset adequacy testing (AAT), including confirming that any IMR amounts do not generate subsequent cash flows and that the IMR does not reflect excess withdrawals; 2) drafting guidance for companies for year-end 2023, consistent with year-end 2022 guidance but updated for the Working Group's potential admission of some portion of aggregate negative IMR; 3) drafting an APF for the 2025 *Valuation Manual* consistent with the guidance; and 4) recommending to the Working Group that any decision to admit or not admit aggregate negative IMR not rely on AAT at this time.

Carmello discussed the potential for a disclosure that could illustrate that the proceeds of bond sales were reinvested at higher interest rates and, therefore, more worthy of reporting an associated negative IMR asset. Robust discussion ensued, with some indicating the value of such a disclosure and others noting challenges with the approach. Hemphill noted that a Statutory Accounting Principles (E) Working Group exposure stated that any negative IMR balances that would be admitted would be limited to those where the proceeds of the sale of bonds held at amortized cost were immediately reinvested into other qualifying fixed-income assets that would also be held at amortized cost.

Hemphill asked if any Task Force members objected to moving forward with the proposed response to the Working Group referral. As none objected, Hemphill noted that work would proceed on the response to the Working Group.

Having no further business, the Life Actuarial (A) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/ 2023-2-Summer/LATF Calls/04 27/April 27 Minutes.docx

Draft: 6/28/23

Life Actuarial (A) Task Force
Virtual Meeting
April 20, 2023

The Life Actuarial (A) Task Force met April 20, 2023. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Ahmad Kamil and Thomas Reedy (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Dana Popish Severinghaus represented by Vincent Tsang (IL); Amy L. Beard represented by Heir Cooper (IN); Vicki Schmidt represented by Nicole Boyd (KS); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Eric Dunning represented by Michael Muldoon (NE); Marlene Caride represented by Seong-min Eom (NJ); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT).

1. Disbanded the Index-Linked Variable Annuity (A) Subgroup

Hemphill thanked Weber, the members of the Index-Linked Variable Annuity (A) Subgroup, and the interested parties for working to complete the charges of the Subgroup. Weber noted that he supports disbanding the Subgroup.

Hemphill asked Task Force members if there are any objections to disbanding the Subgroup. With no objections, the Subgroup disbanded.

2. Adopted APF 2023-04

Hemphill said amendment proposal form (APF) 2023-04 clarifies the requirements for the mortality rates the company expects to emerge. She noted that no comments were received during the exposure period.

Chupp made a motion, seconded by Reedy, to adopt APF 2023-04 (Attachment A). The motion passed unanimously.

3. Exposed APF 2023-06

Hemphill noted that APF 2023-06 was taken from Sections 1 and 2 of the originally exposed version of APF 2023-03. She said APF 2023-06 addresses: 1) an inconsistency in the net premium reserve (NPR) calculation in VM-20, Requirements for Principle-Based Reserves for Life Products; and 2) adding a cash surrender value floor to the calculation of scenario reserves to be consistent with VM-21, Requirements for Principle-Based Reserves for Variable Annuities.

On item #1, Dylan Strother (American Academy of Actuaries—Academy) walked through the Academy's comment letter (Attachment B) and noted that initial testing showed a material increase to the NPR for new business. Chupp asked how the formulae for the NPR differs from the methodology used in *Actuarial Guideline XXXVIII—The Application of the Valuation of Life Insurance Policies Model Regulation* (AG 38) Section 8D. Strother noted that the calculations are not directly comparable. Colin Masterson (American Council of Life Insurers—ACLI) walked through the ACLI's comment letter (Attachment C) and noted that the ACLI supports delaying consideration on APF 2023-06 and holistically reviewing the NPR formula before making changes. Hemphill responded that she

supports taking the appropriate amount of time to consider the changes in APF 2023-06, and she requested additional analysis from the Academy.

Regarding the changes in Section 2 of APF 2023-06, Dave Neve (Academy) noted that the Academy does not support flooring the VM-20 scenario reserve at the cash surrender value due to a floor already being present in the NPR calculation, as well as the Academy's view that a floor in the scenario reserve component would distort the VM-20 stochastic reserve measure. Masterson agreed with Neve, and he noted a lack of support from the ACLI for this change. Hemphill noted concerns that without this change, the measure of tail risk could be understated in the VM-20 stochastic reserve, to which Carmello agreed.

Carmello made a motion, seconded by Weber, to expose APF 2023-06 (Attachment D) for a 21-day public comment period ending May 10. During discussion of the motion, Neve asked if it would make sense to determine the impact of these changes prior to adoption. Hemphill responded that some quantification was already provided, and interested parties were free to comment during the exposure period regarding any additional quantification that is necessary. The motion passed unanimously.

4. Discussed the VOSTF Bond Risk Measures Referral

Hemphill introduced the Bond Risk Measures referral (Attachment E) from the Valuation of Securities (E) Task Force (VOSTF) that had been exposed for comment. She proposed responding to items #1 through #4 of the referral by: 1) indicating that the Life Actuarial (A) Task Force was supportive of the Securities Valuation Office (SVO) initiative to build out a new capability to calculate market data fields; 2) noting that weighted-average life (WAL), option-adjusted spread (OAS), duration, and convexity are some of the most helpful measures, along with comparisons of credit rating provider (CPR) ratings to SVO ratings, to support state insurance regulator review of principle-based reserves (PBR) and asset adequacy testing (AAT); 3) noting that the investment data would be used to complement *Actuarial Guideline LIII—The Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53), PBR, and AAT reporting, which is less granular than the proposed risk measures, to give state insurance regulators additional insights into the risk/reward profile of insurer assets, while reducing the need for Life Actuarial (A) Task Force stress testing; and 4) stating that a description of the scenarios or situations where an asset, such as a collateralized loan obligation (CLO), could lose much of its value would assist state insurance regulators in assessing tail risk in PBR, AAT, and other reviews.

Hemphill then summarized comment letters that had been received from the Academy (Attachment F) and the ACLI (Attachment G). Craig Morrow (Academy) spoke to the Academy's comment letter, and he stated that it recommends developing a proof-of-concept initiative to identify how the additional investment information could be utilized.

Hemphill asked if any Life Actuarial (A) Task Force members object to directing NAIC staff to draft a memo to the Valuation of Securities (E) Task Force with the discussed response. No members objected, and NAIC staff were given the direction to draft the memo.

5. Discussed the Valuation of Securities (E) Task Force Structured Equity and Funds Referral

Hemphill summarized the VOSTF Structured Equity and Funds referral (Attachment H), and she noted that a comment letter (Attachment I) was received from the ACLI. Masterson said the ACLI noted some concerns to the VOSTF regarding this initiative in a separate comment letter.

Hemphill asked if any Life Actuarial (A) Task Force members object to directing NAIC staff to draft a memo to the Valuation of Securities (E) Task Force noting support of the related efforts continuing through an open process. No members objected, and NAIC staff were given the direction to draft the memo.

Having no further business, the Life Actuarial (A) Task Force adjourned.

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Draft: 6/15/23

Life Actuarial (A) Task Force
and the Life Risk-Based Capital (E) Working Group
Virtual Meeting
April 13, 2023

The Life Actuarial (A) Task Force met April 13, 2023, in joint session with the Life Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Ahmad Kamil (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Dana Popish Severinghaus represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover and Heir Cooper (IN); Vicki Schmidt represented by Nicole Boyd (KS); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Chlora Lindley-Myers represented by William Leung (MO); Eric Dunning represented by Michael Muldoon (NE); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT). The following Working Group members participated: Philip Barlow, Chair (DC); Sanjeev Chaudhuri (AL); Thomas Reedy (CA); Wanchin Chou (CT); Mike Yanacheak (IA); Vincent Tsang (IL); Fred Andersen (MN); William Leung (MO); Derek Wallman (NE); Seong-min Eom (NJ); Bill Carmello (NY); Andrew Schallhorn (OK); Rachel Hemphill (TX); and Tomasz Serbinowski (UT).

1. Approved the Formation of the Economic Scenarios (E/A) Subgroup and its Associated Charges

Hemphill said a joint Economic Scenarios (E/A) Subgroup was being considered for formation, noting that it was a joint subgroup of the Life Actuarial (A) Task Force and Life Risk-Based Capital (E) Working Group due to the impact of economic scenarios on life insurance and annuity reserves and capital. She said charges (Attachment A) were exposed, and one comment letter from Mark Tenney (Mathematical Finance Company) (Attachment B) was received. She stated that in response to a portion of Tenney's comments, an additional charge was added to develop and maintain acceptance criteria reflective of history and plausibly more extreme scenarios. Tenney said he agrees with the edits to the charges, but he noted that there were challenges with interpreting the results of the Cox-Ingersoll-Ross (CIR) model. Jason Kehrberg (American Academy of Actuaries—Academy) said the Academy Economic Scenario Working Group approved of the addition to the charges, and it is actively working on developing acceptance criteria.

Hemphill asked Task Force and Working Group members if they approve of the formation of the Economic Scenarios (E/A) Working Group. All responded in the affirmative.

2. Discussed the VM-20/VM-21 GOES Technical Drafting Group Topics Exposure

Hemphill said the VM-20, Requirements for Principle-Based Reserves for Life Products/VM-21, Requirements for Principle-Based Reserves for Variable Annuities Generator of Economic Scenarios (GOES) Technical Drafting Group exposed a series of topics (Attachment C) that would be discussed at meetings of the Drafting Group.

3. Reported on a Regulator-to-Regulator Meeting of the SPA Drafting Group

Hemphill said the Standard Project Amount (SPA) Drafting Group met April 6 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC's Policy Statement on Open Meetings, to share the results of a confidential survey sent to companies requesting data related to the SPA.

Having no further business, the Life Actuarial (A) Task Force and Life Risk-Based Capital (E) Working Group adjourned.

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August 11, 2023

From: Fred Andersen, Chair
The Experience Reporting (A) Subgroup

To: Rachel Hemphill, Chair
The Life Actuarial (A) Task Force

Subject: The Report of the Experience Reporting (A) Subgroup to the Life Actuarial (A) Task Force

The Experience Reporting (A) Subgroup has not met since the Spring National Meeting. Upcoming projects include monitoring the plans for collecting life insurance mortality and policyholder behavior data using the NAIC as the statistical agent, starting to develop mandatory reporting of variable annuity data, and continuing to work on evaluating actuarial aspects of accelerated underwriting.

Note that the Valuation Analysis Working Group (VAWG), through its company-specific reviews of asset adequacy analysis will monitor emerging trends, particularly with respect to dynamic policyholder behavior resulting from the rise in interest rates. Findings from VAWG may inform the need for upcoming data collection.

August 11, 2023

From: Fred Andersen, Chair
Indexed Universal Life (IUL) Illustration (A) Subgroup

To: Rachel Hemphill, Chair
The Life Actuarial (A) Task Force

Subject: The Report of the Indexed Universal Life (IUL) Illustration (A) Subgroup (IUL Illustration SG) to the Life Actuarial (A) Task Force

The IUL Illustration SG has not met since the adoption of group's main work product, revisions to Actuarial Guideline 49A, by the Life Actuarial (A) Task Force on December 11, 2022. The revisions to Actuarial Guideline 49A were subsequently adopted by the NAIC's Executive (EX) Committee and Plenary at the Spring National Meeting on March 25. Regulators are reviewing the impact of the Guideline revisions on the market.

August 11th, 2023

From: Seong-min Eom, Chair
The Longevity Risk (E/A) Subgroup

To: Rachel Hemphill, Chair
The Life Actuarial (A) Task Force

Subject: The Report of the Longevity Risk (E/A) Subgroup to the Life Actuarial (A) Task Force

The Longevity Risk (E/A) Subgroup has not met since the Spring National Meeting. The subgroup will resume the meetings once the currently exposed VM-22 PBR methodology is finalized and adopted to develop and recommend longevity risk factor(s) for the product(s) that were excluded from the application of the current longevity risk factors.

August 11, 2023

From: Pete Weber, Chair
The Variable Annuities Capital and Reserve (E/A) Subgroup

To: Rachel Hemphill, Chair
The Life Actuarial (A) Task Force

Subject: The Report of the Variable Annuities Capital and Reserve (E/A) Subgroup (VACR SG) to the Life Actuarial (A) Task Force

The VACR SG has not met since the Spring National Meeting. At the request of LATF, the Chair has made a request to the Society of Actuaries to expand the work they are currently carrying out for the VM-22 Standard Projection Amount Mortality DG to include variable annuities. More specifically, to develop mortality rates to be used as prescribed assumptions within the VM-21 Standard Projection Amount. Work continues on this project and a report and recommendations are expected later this year.

Agenda Item 2

Report of the Valuation Manual
(VM)-22 Subgroup

August 11, 2023

From: Ben Slutsker, Chair
The VM-22 (A) Subgroup

To: Rachel Hemphill, Chair
The Life Actuarial (A) Task Force

Subject: The Report of the VM-22 (A) Subgroup to the Life Actuarial (A) Task Force

The VM-22 (A) Subgroup has been meeting roughly every other week since the beginning of April this year. After several Subgroup calls, nearly 200 comments on the 2022 exposed draft of VM-22 were addressed and reflected in an updated document, which is available on the NAIC website. The updates to the newest draft include guidance related to the VM-22 Exemption, exclusion testing, longevity reinsurance, hedging, rider valuation treatment, and various other items.

Subsequent to developing an updated to draft of VM-22, the Subgroup exposed a draft of the standard projection amount requirements during the July 29 call. The exposure focuses on the structure and methodology of the SPA rather than the assumptions themselves, which only contain placeholders in the exposed draft. For upcoming calls, the Subgroup plans to hear updated presentations from the SPA mortality drafting group, led by Seong-min Eom (NJ), including recommendations from the Society of Actuaries on SPA mortality assumptions for payout annuities, deferred annuities, and structured settlements.

Draft: 8/2/23

Valuation Manual (VM)-22 (A) Subgroup
Virtual Meeting
July 26, 2023

The VM-22 (A) Subgroup of the Life Actuarial (A) Task Force met July 26, 2023. The following Subgroup members participated: Ben Slutsker, Chair (MN); Elaine Lam and Thomas Reedy (CA); Lei Rao-Knight (CT); Vincent Tsang (IL); William Leung (MO); Seong-min Eom (NJ); Bill Carmello (NY); Rachel Hemphill and Iris Huang (TX); Tomasz Serbinowski (UT); and Craig Chupp (VA).

1. Exposed the VM-22 SPA Draft

Slutsker walked through the VM-22, Requirements for Principle-Based Reserves for Non-Variable Annuities, standard projection amount (SPA) draft.

Leung made a motion, seconded by Lam, to expose the SPA draft (Attachment A) for a 90-day public comment period ending Oct 24.

Having no further business, the VM-22 (A) Subgroup adjourned.

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Draft: 7/19/23

Valuation Manual (VM)-22 (A) Subgroup
Virtual Meeting
June 13, 2023

The VM-22 (A) Subgroup of the Life Actuarial (A) Task Force met June 13, 2023. The following Subgroup members participated: Ben Slutsker, Chair (MN); Elaine Lam and Thomas Reedy (CA); William Leung (MO); Seong-min Eom (NJ); Bill Carmello (NY); Rachel Hemphill and Iris Huang (TX); Tomasz Serbinowski (UT); and Craig Chupp (VA).

1. Discussed Tier 3 and 4 Comments on the VM-22 Draft

Slutsker introduced a comment from Chupp relating to a desire for consistency between the error factor language in VM-21, Requirements for Principle-Based Reserves for Variable Annuities, and that in the VM-22, Requirements for Principle-Based Reserves for Non-Variable Annuities draft. He noted that it appeared that language specifying that a series of examples was not exhaustive was dropped from the VM-22 draft. After a short discussion, with Lam noting support for Chupp's comment, the Subgroup agreed to make the change suggested by Chupp. Slutsker then walked through a comment from Brian Bayerle (American Council of Life Insurers—ACLI) that suggested that a list of assumptions where sensitivity testing is needed should be revised to be more reflective of those used in modeling fixed annuities. After some discussion, the Subgroup decided to leave the language in the VM-22 draft as is.

Slutsker then introduced a comment from the ACLI on a section of the VM-22 draft stating that policyholder behavior assumptions should be at least as conservative as company experience unless clear evidence indicates otherwise. He said the ACLI suggested replacing "clear evidence" with "sufficient credibility" and including a reference to materiality. After some discussion, the Subgroup settled on replacing "clear evidence" with "credible evidence." After concluding the Tier 3 comments discussion, the Subgroup resolved some editorial Tier 4 items on which Chupp had commented.

Having no further business, the VM-22 (A) Subgroup adjourned.

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Draft: 8/1/23

Valuation Manual (VM)-22 (A) Subgroup
Virtual Meeting
May 24, 2023

The Valuation Manual (VM)-22 (A) Subgroup of the Life Actuarial (A) Task Force met May 24, 2023. The following Subgroup members participated: Ben Slutsker, Chair (MN); Elaine Lam and Thomas Reedy (CA); Lei Rao-Knight (CT); Vincent Tsang (IL); Nicole Boyd (KS); William Leung (MO); Seong-min Eom (NJ), Bill Carmello (NY); Rachel Hemphill and Iris Huang (TX); Tomasz Serbinowski (UT); and Craig Chupp (VA).

1. Discussed Tier 3 Comments on the VM-22 Draft

Slutsker noted that the Subgroup would discuss several comments on the VM-22, Requirements for Principle-Based Reserves for Non-Variable Annuities, draft (VM-22 draft) related to the exemption from the exclusion test for payout annuities. Slutsker described the first comment from Brian Bayerle (American Council of Life Insurers—ACLI) that suggested including a reference to exhibit 7 of the NAIC Annual Statement to reinforce that term certain payout annuities would be eligible for the exemption from the exclusion test and included in the exemption threshold. Chris Conrad (American Academy of Actuaries—Academy), Lam, and Huang all noted support for the ACLI's comment, and the Subgroup agreed to make the suggested changes.

Slutsker then introduced another comment from the ACLI to consider allowing for "plain-vanilla" forms of longevity reinsurance to be eligible for the exemption from the exclusion test. Conrad suggested that the Academy could be supportive of this idea if there was a proposal for a methodology to distinguish "plain vanilla" longevity reinsurance agreements from more complex ones. Bayerle noted that he could take this issue back to his group to provide a proposal. Several regulators approved of the approach to have the ACLI come back with a proposal, but Reedy noted that he would like to see a rigorous methodology applied to distinguishing between "plain vanilla" and more complex longevity reinsurance arrangements. After further discussion, the Subgroup agreed to move forward with having the ACLI draft a proposal.

Bayerle then described the ACLI's next comment, which suggested that if a "plain-vanilla" form of longevity reinsurance could be exempted from the exclusion test, then that business should not be included in the determination of the overall VM-22 exclusion threshold. Slutsker noted that this brings up two issues: 1) contracts with guaranteed living benefits (GLBs) are not allowed to be excluded from VM-22 calculations but are included in the exemption threshold in the current VM-22 draft; and 2) there may be a desire for consistency with exemption language in VM-20, Requirements for Principle-Based Reserves for Life Products. Bayerle noted that broad consistency with other sections of the *Valuation Manual* made sense but that it could also be appropriate for some framework-specific differences. Conrad noted that it was the Academy's position that any business not eligible for exemption not be included in the determination of the exemption threshold. Chupp noted that it may be helpful to look at the definitions for longevity reinsurance and pension risk transfer (PRT) and isolate where the risk is and what should be automatically excluded. Slutsker requested that when the ACLI looks into a proposal that it leverages the definitions available in the VM-22 draft, to which Bayerle agreed.

Slutsker said that the final comment on the exclusion test was from the ACLI and concerned provisions that did not allow for contracts with: 1) changes to benefits in excess of 5% over time; and 2) material policyholder options to automatically pass the exclusion test. Slutsker further said that the commenter was concerned that contracts with cost-of-living adjustments (COLAs) and joint and survivor annuities would not be allowed to automatically pass the exclusion test. Conrad noted that the Academy felt that contracts with a predetermined schedule of increases that are not based on an index or are capped at a predefined level could be allowed to automatically

pass exclusion testing. Chupp said he could support modifying the current VM-22 language to allow for scheduled increases, but he is concerned with the potential for vague enough language to allow contracts with balloon payments to be automatically excluded from VM-22 calculations. After additional discussion from regulators and interested parties, the Subgroup decided to modify the VM-22 draft language to include the examples mentioned in the ACLI comment while maintaining the existing guardrails.

Chupp noted that VM-21, Requirements for Principle-Based Reserves for Variable Annuities, has two additional sentences (compared to the VM-22 draft) that define what the investment policy adopted by the board of directors must include when companies are following one or more future hedging strategies and requested that the additional sentences from VM-21 be added to the VM-22 draft. The Subgroup decided to add these additional sentences into the next version of the VM-22 draft.

Having no further business, the VM-22 (A) Subgroup adjourned.

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Draft: 8/2/23

Valuation Manual (VM)-22 (A) Subgroup
Virtual Meeting
May 10, 2023

The Valuation Manual (VM)-22 (A) Subgroup of the Life Actuarial (A) Task Force met May 10, 2023. The following Subgroup members participated: Ben Slutsker, Chair (MN); Elaine Lam and Thomas Reedy (CA); Lei Rao-Knight (CT); Vincent Tsang (IL); Nicole Boyd (KS); William Leung (MO); Seong-min Eom (NJ), Bill Carmello (NY); Rachel Hemphill and Iris Huang (TX); Tomasz Serbinowski (UT); and Craig Chupp (VA).

1. Discussed Tier 3 Comments

Brian Bayerle (American Council of Life Insurers—ACLI) discussed the ACLI's comment that longevity risk transfer (LRT) premiums are usually predetermined, and therefore language in the VM-22, Requirements for Principle-Based Reserves for Non-Variable Annuities, draft implying otherwise should be removed. Eom asked to confirm that the premium amount for the LRT would not change despite deviations from expectations, such as the number of annuitants remaining. Laura Hanson (Pacific Life) stated that typically a company would pay a set premium to the assuming company that would not vary based on, for example, the number of annuitants remaining on the plan versus expectations. Additional discussion ensued, and it was decided that LRT comments would be lumped together and discussed during a future meeting.

Slutsker noted comments from the American Academy of Actuaries (Academy) and the ACLI on an apparent inconsistency in the language where the projection period was required to be as long as needed until: 1) no obligations remain as in the VM-22 draft compared to 2) when no material business is remaining in VM-31, PBR Actuarial Report Requirements for Business Subject to a Principle-Based Valuation, and 3) no materially greater total asset requirement would result in VM-21, Requirements for Principle-Based Reserves for Variable Annuities. Hemphill said that each of these specific callouts to the projection period length are unnecessary, as they are already covered by the overarching concept of materiality and that the existing language in the VM-22 draft is appropriate. There was additional discussion from Subgroup members, and then a roll call vote was held, which determined the language should be left as is.

Chris Conrad (Academy) then described the Academy's comment that if a certain portion of assets, beyond a materiality threshold, are held at market value in support of the product, then that portion of cash surrender value should be subject to a market value adjustment (MVA). Carmello said that given that statutory accounting was focused primarily on book value, the MVA should be ignored. After additional discussions from Subgroup members and interested parties, the Subgroup decided to move forward with Carmello's approach and add a guidance note for additional clarity.

Bayerle spoke to the ACLI's comment that a guidance note that discussed longevity reinsurance contracts where a single deterministic assumption would not adequately capture the risk should either be further clarified or removed. Carmello suggested removing the guidance note given that stochastic mortality had not yet been implemented in principle-based reserves, to which Eom agreed. The Subgroup decided to remove the guidance note.

Having no further business, the VM-22 (A) Subgroup adjourned.

Draft: 8/2/23

Valuation Manual (VM)-22 (A) Subgroup
Virtual Meeting
April 26, 2023

The Valuation Manual (VM)-22 (A) Subgroup met April 26, 2023. The following Subgroup members participated: Ben Slutsker, Chair (MN); Elaine Lam and Thomas Reedy (CA); Lei Rao-Knight (CT); Mike Yanacheak (IA); Vincent Tsang (IL); Nicole Boyd (KS); Seong-min Eom (NJ), Bill Carmello (NY); Rachel Hemphill and Iris Huang (TX); Tomasz Serbinowski (UT); and Craig Chupp (VA).

1. Discussed Tier 3 Comments

Slutsker discussed the first comment from the American Council of Life Insurers (ACLI) that questioned why "after-issuance" language was included in the section of the VM-22, Requirements for Principle-Based Reserves for Non-Variable Annuities, draft that determined whether to value a rider in combination with the base policy or on a standalone basis. To explain the rationale behind the language, Chris Conrad (American Academy of Actuaries—Academy) gave an example of a waiver of premium rider that may reference the overall premium amount at issue but does not depend on policy values after issue, compared to a long-term care (LTC) combination product where base contract benefits that could vary after issue may be drawn upon in the event of an LTC claim. Subgroup members supported the inclusion of the after-issuance language.

Slutsker noted that the next comment from the ACLI suggested there was an inconsistency in the VM-22 draft with language that stated policyholder behavior efficiency will increase over time unless there was credible experience to the contrary and language elsewhere that said that it may generally be assumed that policyholders elect the most valuable benefit if more than one option exists. Colin Masterson (ACLI) said that the "may generally" should be replaced with "should" for the election of the most valuable benefit to be consistent. Discussion ensued, and the Subgroup decided that replacing "may generally" with "should generally" would make the two sections consistent.

Slutsker said that the next comment from the ACLI concerned the definition of longevity reinsurance and that the ACLI suggested striking the "over the expected lifetime of benefits, paid to specified annuitants" language to allow for more flexibility in the definition. Carmello suggested adding the word "generally" to the language to add flexibility, which Subgroup members approved. Slutsker then said that the next comment from the ACLI suggested removing references to separate accounts in the VM-22 draft. Masterson further stated that a survey question could be asked of the future VM-22 field test participants asking if they had any separate accounts supporting their VM-22 business, and Subgroup members agreed with striking the language and adding a field test question.

Slutsker introduced the next comment from the ACLI that stated that the language in a guidance note, specifying contacts valued under VM-A, Appendix A – Requirements, and VM-C, Appendix C – Actuarial Guidelines, are ones that pass exclusion tests and elect not to use modeling, should be included in the main body of the text rather than a guidance note. Subgroup members agreed to moving the language into the main body from a guidance note. Slutsker then moved on to an ACLI comment stating that reserving categories should be determined in a principle-based fashion rather than prescribed. Masterson added that principle-based reserving (PBR) categories could be included in the field test. Conrad noted that aggregation was going to be looked at as part of the field test.

Masterson spoke to the ACLI's next comment that suggested including a definition in the *Valuation Manual* for supplementary contracts. Chupp noted that there are several items that are not defined in the *Valuation Manual*

and wondered whether it was necessary to have a definition for supplementary contracts. Additional discussion ensued and a roll call vote was taken, which resulted in the Subgroup deciding not to add a definition for supplementary contracts.

Having no further business, the VM-22 (A) Subgroup adjourned.

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Draft: 7/31/23

Valuation Manual (VM)-22 (A) Subgroup
Virtual Meeting
April 19, 2023

The Valuation Manual (VM)-22 (A) Subgroup met April 19, 2023. The following Subgroup members participated: Ben Slutsker, Chair (MN); Elaine Lam and Thomas Reedy (CA); Lei Rao-Knight (CT); Vincent Tsang (IL); Nicole Boyd (KS); Seong-min Eom (NJ), Bill Carmello (NY); Rachel Hemphill and Iris Huang (TX); Tomasz Serbinowski (UT); and Craig Chupp (VA).

1. Discussed the Tier 2 Item – Combo Product Valuation

Slutsker introduced a question from Chupp regarding whether the nursing home riders and other combo products should be valued under principle-based reserving (PBR) or the prior formulaic reserve method. Chupp pointed out that the reference to nursing home benefits was removed in the October 2022 exposure of the VM-22, Requirements for Principle-Based Reserves for Non-Variable Annuities, draft, but it was kept in the current exposure. Slutsker asked if there were any comments from the American Academy of Actuaries (Academy) on why nursing home benefits were included or any thoughts on combo products. Chris Conrad (Academy) mentioned that the Academy wanted to include nursing home benefits in the VM-22 draft to ensure that there is an explicit reserve for them. Regarding other combo products, Conrad said that the Academy recommendation is that combo products be included in the model reserves for the base policy. Further discussion ensued, and the Subgroup agreed no changes would be made to the VM-22 draft.

2. Discussed the Tier 2 Item – Reserving Category for GLB with Depleted AV

Slutsker said that the current VM-22 draft places deferred annuities (DAs) with guaranteed living benefits (GLBs) in the payout reserving category once the account value (AV) has been depleted. Slutsker further noted that this can lead to implementation and conceptual challenges given that these contracts start out in the accumulation reserving category. Conrad commented that because this is a principle-based framework, the Academy supports leaving it to the actuary to decide whether to categorize GLB contracts with depleted fund values as either belonging to payout or accumulation reserving categories if they are able to justify that treatment in their VM-31, PBR Actuarial Report Requirements for Business Subject to a Principle-Based Valuation, report. Colin Masterson (American Council of Life Insurers—ACLI) commented that allowing optionality to align categorization with how business is managed is conceptually and operationally appropriate.

Additional discussion ensued, with state insurance regulators split on whether to allow optionality for GLB contracts with depleted AVs or to categorize the contracts in either the payout or accumulation reserving category. Slutsker then asked Subgroup members to voice-vote on whether to allow optionality for categorizing GLB contracts with depleted fund values. The result of the vote was that the majority of Subgroup members supported not allowing optionality. Slutsker then conducted a second voice vote to decide to categorize GLBs with depleted AVs. Because the result of the voice vote was unclear, Slutsker directed Scott O'Neal (NAIC) to conduct a roll call vote, with the accumulation categorization ending up supported by the majority of Subgroup members. Slutsker noted that based on this vote, there will be an edit to the VM-22 draft where the DA contracts with GLBs whose AV is depleted will be removed from the payout reserving category and included in the accumulation reserving category.

3. Discussed the Tier 2 Item – Frequency of Reviewing PBR Assumptions

Slutsker noted that the VM-22 draft currently specified reviewing experience annually and updating assumptions periodically as appropriate, and that there was a question about whether VM-22 should be more prescriptive with the frequency of assumption updates. Subgroup members discussed options, including: 1) either changing the word "periodically" to "annually" to make assumption updates consistent with annual reviews; or 2) changing periodically to every three years like VM-20, Requirements for Principle-Based Reserves for Life Products, and VM-21, Requirements for Principle-Based Reserves for Variable Annuities. The Subgroup voted to update the language from "periodically" to "annually."

Having no further business, the Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2023-2-Summer/VM-22 Calls/04 19/Apr 19 Minutes.docx

Draft: 7/25/23

Valuation Manual (VM)-22 (A) Subgroup
Virtual Meeting
April 12, 2023

The VM-22 (A) Subgroup met April 12, 2023. The following Subgroup members participated: Ben Slutsker, Chair (MN); Elaine Lam and Thomas Reedy (CA); Lei Rao-Knight (CT); Mike Yanacheak (IA); Vincent Tsang (IL); Nicole Boyd (KS); William Leung (MO); Seong-min Eom (NJ); Bill Carmello (NY); Rachel Hemphill and Iris Huang (TX); Tomasz Serbinowski (UT); and Craig Chupp (VA).

1. Discussed the VM-22 Exemption

Slutsker said the purpose of the call would be to go over comments received on the latest exposed version of the VM-22, Requirements for Principle-Based Reserves for Non-Variable Annuities draft (Attachment 1). He noted that the Subgroup voted on the VM-22 exemption threshold for the individual company level, but the group threshold still needs to be determined. Chupp said he supports a $2 billion threshold level, to which Reedy agreed. Hearing no objections from the Subgroup, Slutsker noted that the $2 billion level for the group exemption threshold would be included in the revised VM-22 draft.

Slutsker then asked whether business included in the Other Annuities column of the Analysis of the Increase in Reserves exhibit should be included in the determination of the threshold, noting that the column could include business that is out of the scope of VM-22. Carmello said business in the Other Annuities column should be included unless it is valued under VM-21, Requirements for Principle-Based Reserves for Variable Annuities. Leung also noted that there is additional business included in the Other Annuities column that is not in the scope of VM-21 but is also exempt from VM-22. Hearing no objection from the Subgroup, Slutsker noted that the revised VM-22 draft would include business in the Other Annuities column in the determination of VM-22 exemption, with language to exclude business subject to VM-21 or otherwise excluded from VM-22.

Slutsker said the current VM-22 draft does not allow for annuities with guaranteed living benefits (GLBs) to be exempted from VM-22. Arguments for and against allowing GLBs to be eligible for exemption were discussed. The Subgroup decided to leave the current language as is for the next draft, leaving room for future proposals to add language to allow companies that are no longer issuing business exemptions for previously issued GLBs on claim status.

2. Discussed Longevity Reinsurance

Brian Bayerle (American Council of Life Insurers—ACLI) noted that the k-factor approach to determining reserves for longevity reinsurance would be complex, and there is likely a simpler method that would also address regulators' concerns with potential negative reserves. Eom noted that the k-factor could be determined at issue and held constant throughout the life of the contract, therefore reducing complexity. Additional discussion ensued, but the Subgroup agreed to continue with the k-factor approach for longevity reinsurance.

3. Discussed Tier 2 Items

Slutsker said discussions of Tier 1 comments had concluded, and the Subgroup would now move on to Tier 2 comments. For the first Tier 2 item, he said a set of principles exists in the draft (VM Section II) that determines whether business would be scoped into VM-21 or VM-22, and both the ACLI and American Academy of Actuaries (Academy) commented on how prescriptive the language should be. Chris Conrad (Academy) noted a preference

for using the prescriptive “shall” language to strictly delineate VM-21 and VM-22 business, while Bayerle expressed support for more flexible language. Subgroup members voted to include the more prescriptive language in the next version of the VM-22 draft.

Having no further business, the VM-22 (A) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2023-2-Summer/VM-22 Calls/04 12/Apr 12 Minutes.docx

Agenda Item 3

Hear Presentations on Findings from Regulator Reviews of Company Filings for Actuarial Guideline LIII

Findings from Regulator Reviews of Company Filings for Actuarial Guideline 53

Fred Andersen, FSA, MAAA

8/11/2023

Notice Regarding Confidentiality

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Data Limitations

- Asset information shown in the slides that follow rely on data submitted by companies in their AG 53 templates. The NAIC took steps to review the data for reasonableness. However, the accuracy and reliability of the results are ultimately dependent on the quality of participant submissions.
- Some of the submitted data was adjusted to make it useable and help ensure greater consistency of reporting across companies. For example: 1) units were changed from dollars to millions where necessary; 2) asset types were mapped to those listed in the standard AG 53 template for companies that substituted different asset descriptions; 3) aggregated initial asset summary templates were created for companies that provided templates by segment but not in total; 4) templates submitted as PDFs were converted to Excel.
- Some companies did not submit AG 53 templates or did not complete all of the AG 53 template tabs.

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Summary

1. AG 53 background
2. AG 53 review activities
3. Net yield assumption findings
4. Upcoming review steps

AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.

AG 53 Background

- Actuarial Guideline 53 was adopted in 2022
- Main purpose: help ensure claims paying ability even if complex assets do not perform as expected
- Requires disclosures and asset-related information for most life insurers over a size threshold
  - An opportunity for companies to tell their stories regarding:
    - Their complex assets & associated risks
    - How their cash-flow testing models address those risks
- First submissions were due April 2023

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AG 53 Reviews – activity to date

Done:

- ✓ AG 53 filings received from 246 life insurers
- ✓ AG 53 Review Group (within the Valuation Analysis Working Group) formed
  - Team of actuaries, investment experts, and other financial staff to perform reviews
- ✓ Review process started with company prioritization, based on prior knowledge and template information

In Progress:

- AG 53 Review Group meeting frequently, with various state regulators presenting their review findings
- Identifying companies with outlier net yield assumptions
- Engaging with domestic regulators with the goal of decreasing highest net yield assumptions to remove companies from outlier list

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Implications of Higher Investment Net Yield Assumptions

- More favorable asset adequacy analysis results
- Lower amounts of assets needed for reserves to be considered adequate
  - A signal that more money could be released (dividends or other)
- Concern is, if risk is understated and assets underperform, reserves will turn out to be inadequate and that previously released money may have been needed

Amount to fund $1 Billion liability in 15 years

Company assumption type	Assumed net yield for high- yield assets	Adequate reserve per company's CFT	Adequate reserve per average conservative company's CFT	Amount (in excess of adequate reserve) available to be released per company's CFT
Most conservative	4.5%	$ 520,000,000	$ 520,000,000	$ -
Moderately conservative	5.8%	$ 430,000,000	$ 520,000,000	$ 90,000,000
Fairly aggressive	6.5%	$ 390,000,000	$ 520,000,000	$ 130,000,000
Outlying / aggressive	7.8%	$ 320,000,000	$ 520,000,000	$ 200,000,000

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Range of Practice for Net Yield Assumptions

- Some companies are assuming outlier levels of high net yield assumptions. Reducing those outlying assumptions could result in:
    1. Less reliance on sustained high levels of investment returns (e.g., 8% for 30 years) in order to:
        a. Make reserves adequate
        b. Pay claims
    2. Not encouraging more companies to assume unreasonably high net yield assumptions to compete

- A vast majority of life insurers have reasonable net yield assumptions

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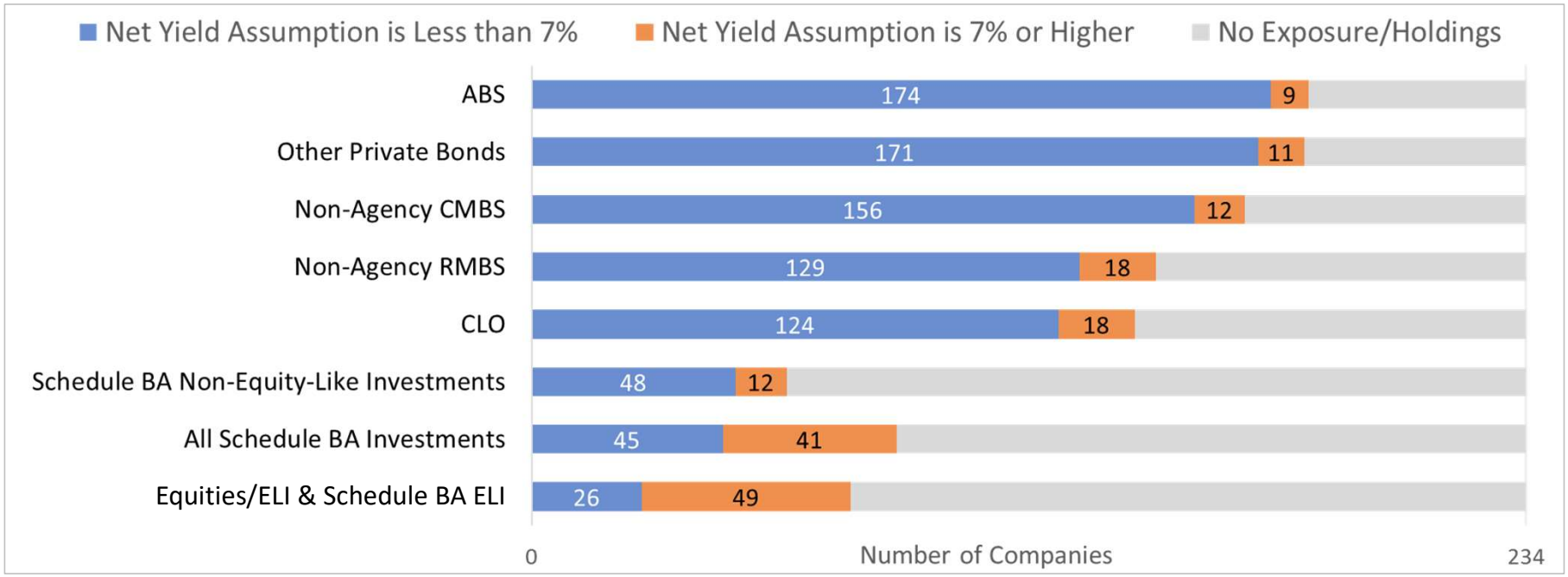
Net Yield Assumptions

A majority of companies assumed Net Yields < 7% for Initial Assets, but a sizable number of companies assumed Net Yields ≥ 7%



ELI = Equity-Like Investments/Instruments
*The Equities or ELI asset type and the Schedule BA ELI asset type were aggregated so that, for each company, the maximum yield among the two categories is reflected.

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Net Yield Assumptions For many asset types, a majority of companies assumed Net Yields < 5%

Net Yield for **Initial Assets**	ABS	Other Private Bonds	Non-Agency CMBS	Non-Agency RMBS	CLO	Schedule BA Non-ELI	All Schedule BA	Equities/ELI & Schedule BA ELI*
Less than 5%	**134**	**129**	**124**	**103**	**58**	**26**	**24**	12
5%-5.99%	27	31	18	17	38	17	14	6
6%-6.99%	13	11	14	9	28	5	7	8
7%-7.99%	6	4	6	8	9	2	9	16
8%-9.99%	1	5	6	6	7	10	**24**	**23**
10%+	2	2	0	4	2	0	8	10

Net Yield for **Reinvestments**	ABS	Other Private Bonds	Non-Agency CMBS	Non-Agency RMBS	CLO	Schedule BA Non-ELI	All Schedule BA	Equities/ELI & Schedule BA ELI*
Less than 5%	28	**129**	26	**25**	11	**26**	1	1
5%-5.99%	**39**	31	**29**	24	**21**	17	5	2
6%-6.99%	30	11	13	6	14	5	6	4
7%-7.99%	1	4	11	0	17	2	1	6
8%-9.99%	1	5	0	0	8	10	**10**	**16**
10%+	0	2	0	0	4	0	3	4

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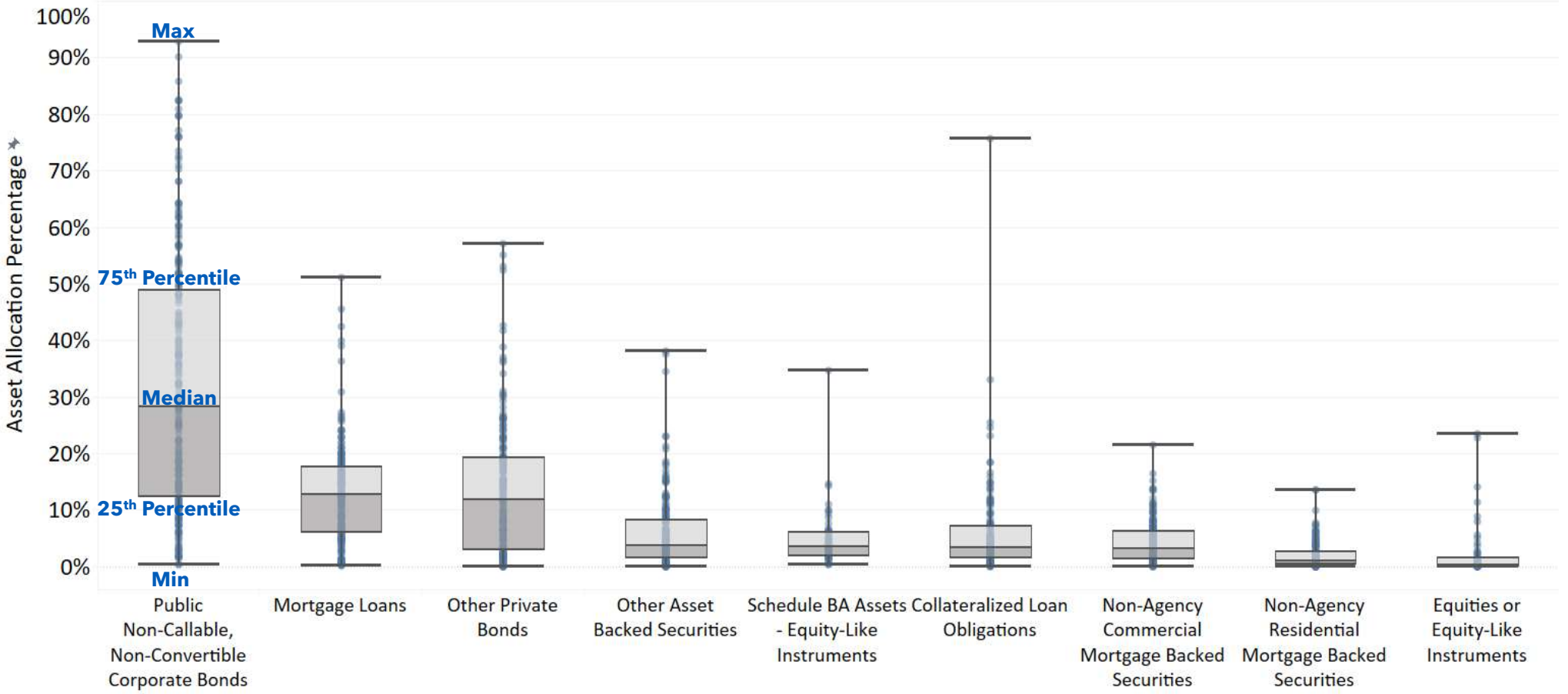
Quartiles of Initial Asset Allocation Percentages

For companies with non-zero amounts reported in each asset type.



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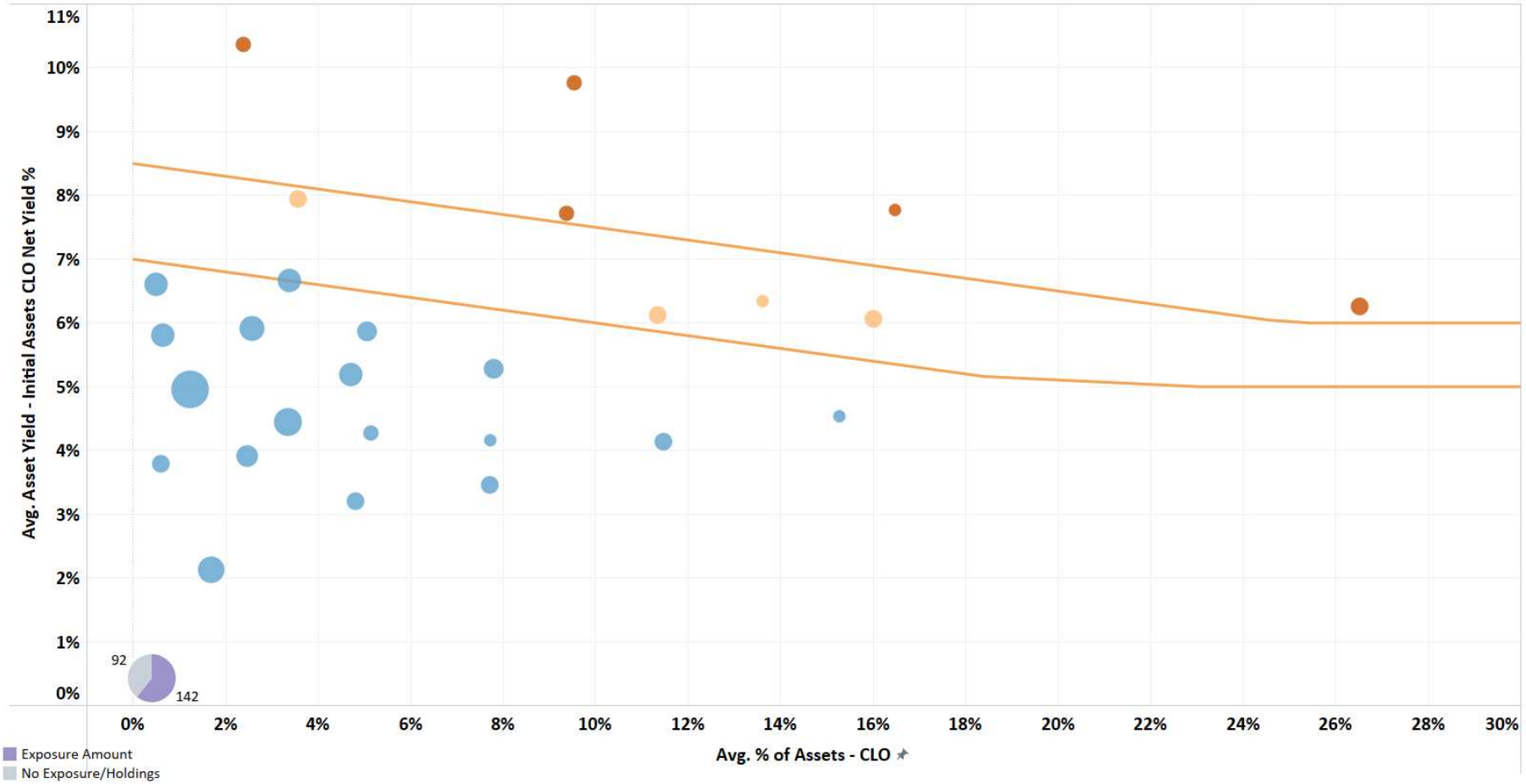
Initial CLO Average Net Yield vs CLO Asset Allocation

Plotted average of clusters of companies with non-zero amounts reported in CLO

Note: Each dot represents more than one company.
The larger the dot, the more companies in the cluster.



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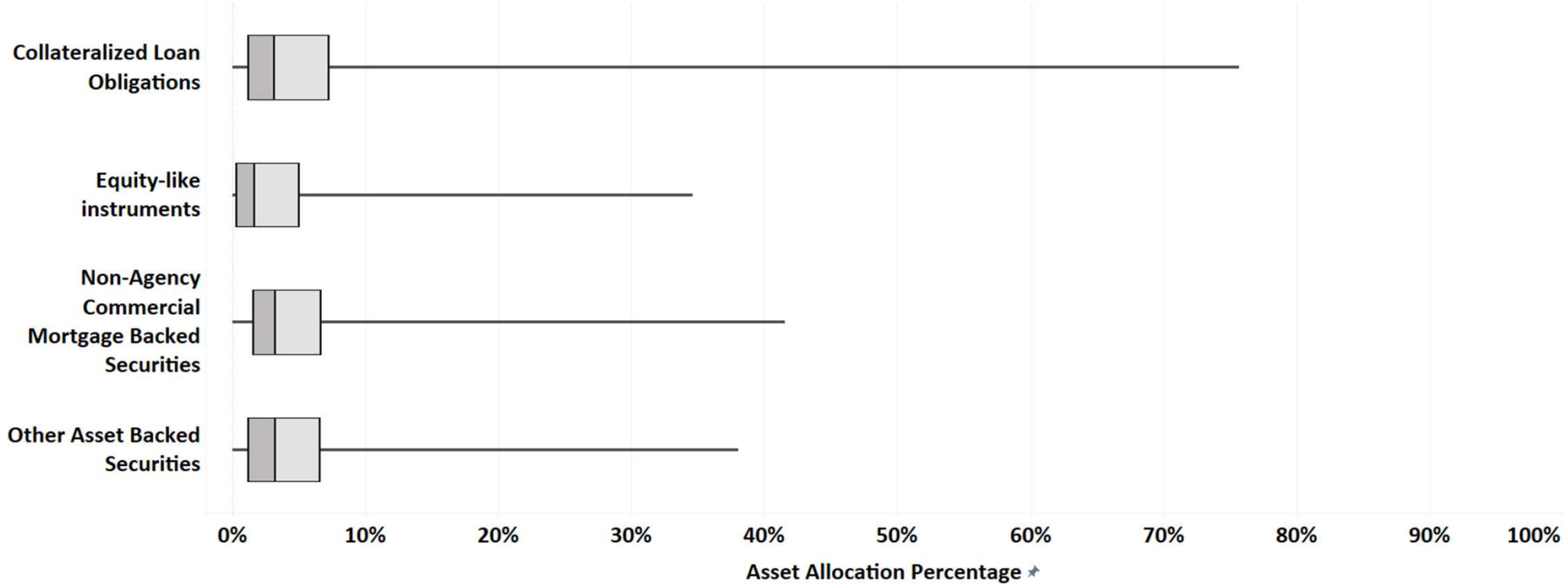
Quartiles of Initial Asset Allocation Percentages

For companies with non-zero amounts reported in each asset type



*Equity-like instruments includes Schedule BA-Equity like instruments

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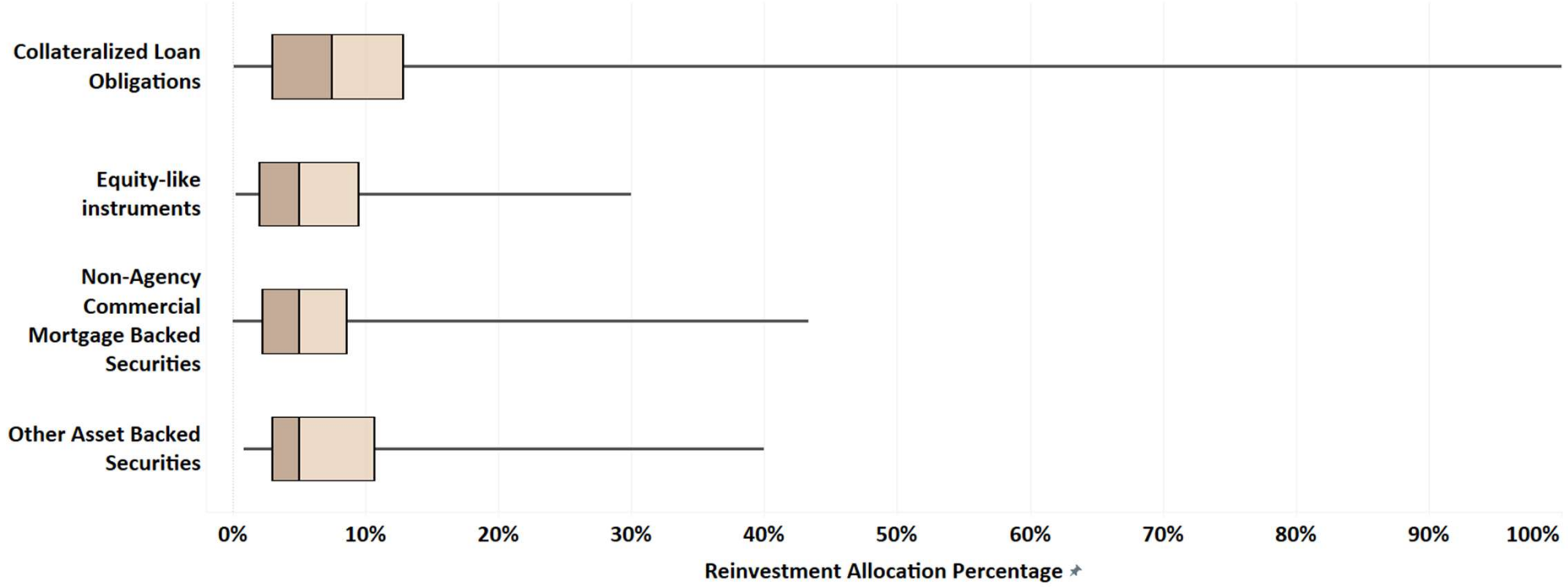
Quartiles of Reinvestment Asset Allocation Percentages

For companies with non-zero allocations reported in each asset type



*Equity-like instruments includes Schedule BA-Equity like instruments

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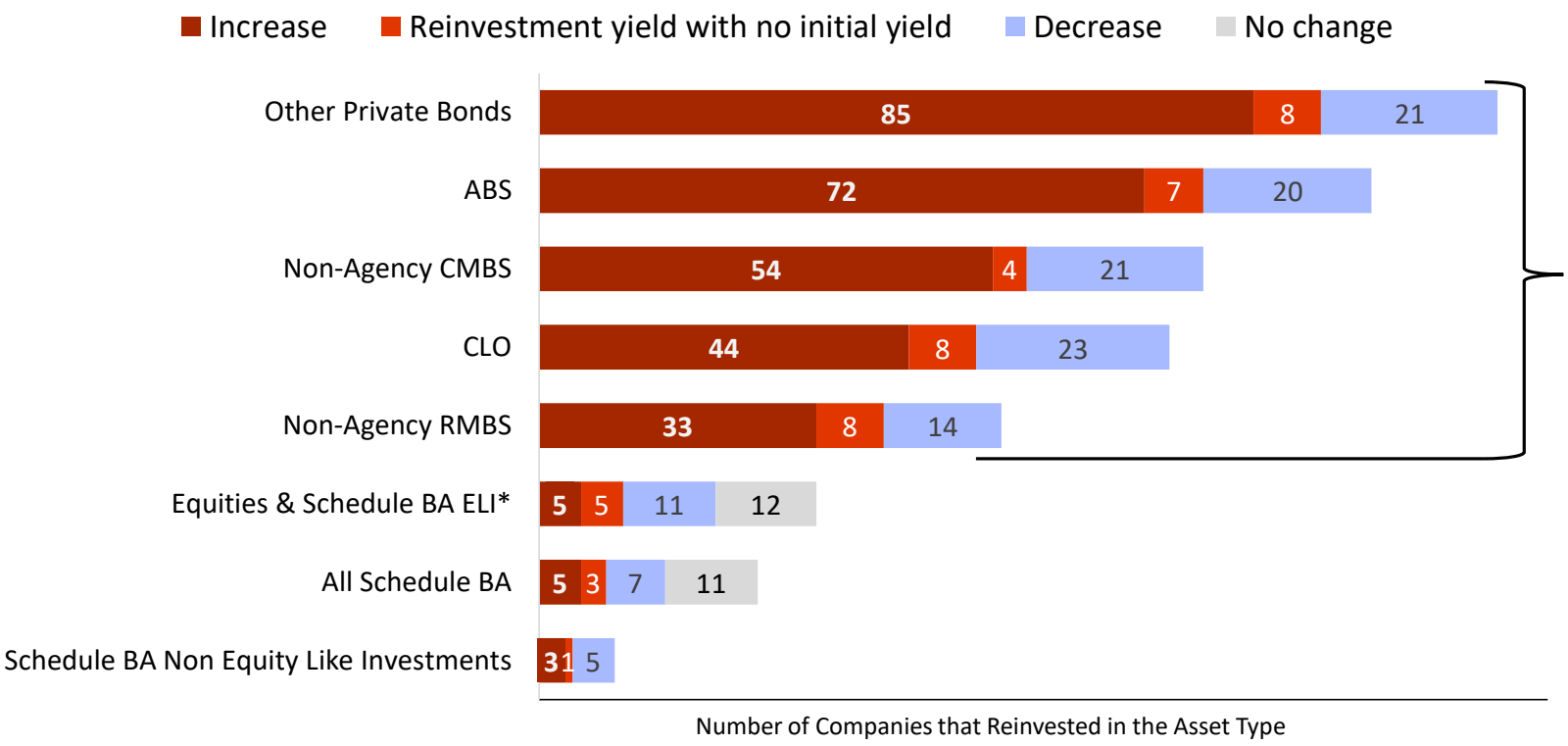
Reinvestment Net Yield compared to Initial Asset Net Yield



More companies assumed an **increased net yield** for reinvestments

ELI = Equity-Like Investments/Instruments
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Attribution of Guideline Excess Spreads for Initial Assets

- Beyond **Credit Risk** and **Illiquidity Risk**, a wide array of descriptions were used to identify the risk components related to the Guideline Excess Spread
- Risks identified as **other components** included:
  - Spread Widening
  - Call / Prepayment
  - Complexity
  - Convexity
  - Structure
  - Volatility
  - Interest Rate

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Examples of range of general practices

- **Assumptions in 30-year+ cash-flow testing projection:**

Company 1 (reflective of most companies)

- High performance will continue for a short time
- Narrative: as markets increase in efficiency, yields will decline over time
- Excess returns over market risk/return expectations not reflected in reinvestment assets

Company 2 (reflective of small number of companies with outlying assumptions)

- High performance will continue throughout the projection with little downside risk
- Little explanation in narrative, risks "too complicated to model"
- Attribution analysis: illiquidity or complexity are described as reasons for excess returns
- Future reinvestments are projected to continue to have high performance

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Regulator reactions to outlying practices

- Work with Company 2 types
  - Plan A: a soft touch – encourage adding conservatism to assumptions
  - Plan B: firmer tone – highly recommend adding conservatism
  - Plan C (if company resists Plans A and B): exercise regulatory authority as appropriate

- Domestic regulator is typically the point person

- If regulators are concerned about more widespread practice:
  - Typically work with LATF for potential consideration of rulemaking
  - Cash-flow testing of equity return assumptions may fit this category

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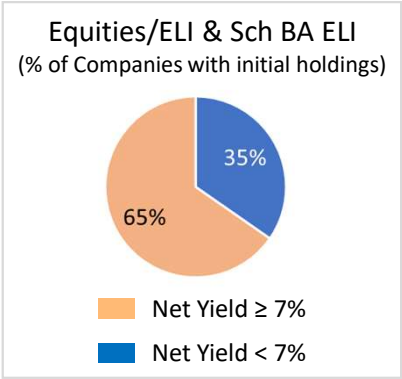
Equity return assumptions

- For other asset types, above 7% assumed net returns are bordering on being an outlier
- For equities, it's more common for life insurers to assume returns in excess of 7%
  - While fixed-income securities are subject to interest rate scenarios, equities are typically modeled simplistically, with the return assumed to be the same each year
  - Other standards impacting life insurer products require reflection of volatility
    - e.g., VM-20, VM-21



- Even a small allocation to equities grows to be a substantial allocation over time if equities are assumed to earn excess returns in all scenarios
- Consideration for future LATF discussion – guardrails on assumed equity returns in asset adequacy analysis

AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.

Q&A on Reviews of Net Yields

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AG 53 Next steps – Reinsurance collectability risk

- Requests for additional information from ceding companies are being sent in targeted situations:
  - Particularly if assuming company does not submit a VM-30 actuarial memorandum to a state
  - Inquiry:
    - Description and reason for significant reinsurance ceded transactions
    - Process and metrics used to evaluate the counterparty's asset risk and financial health
  - Reasons for review:
    - Help ensure future claims are paid and the US insurer's balance sheet is accurate
    - Are significant risks associated with reinsurance ceded appropriately addressed in the actuarial memorandum?
    - A US ceding company should not act like they've wiped their hands and balance sheet of the risk if the assuming company will be some combination of weakly capitalized, under-reserved, or with risky assets supporting reserves.
    - Bottom line: are there enough quality assets at the reinsurer to pay reinsurance claims in moderately adverse conditions?

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AG 53 Next steps - Guidance Document

- Guidance Document for year-end 2023
  - Add clarification / fill in gaps identified during reviews of year-end 2022 filings, including:
    - Sensitivity test for currently-held equities
    - Structured asset information by tranche and related to payments in kind
    - Information about asset allocations in future projection years
    - Help ensure less volatility in classification as a projected high net yield asset
    - Template clarification and updates

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AG 53 Reviews – "Phases"

- Transition to "Phase 2" reviews
  - Phase 1 focused on active companies with outlying net yield assumptions
  - Phase 2 will be other issues:
    - Incomplete documentation
    - Focus on narrative answers
      - Identify best / outlying practices (e.g., determination of fair value of internally-valued assets)

AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.

Agenda Item 4

Discuss VM-20 Historical and Future
Mortality Improvement Factors

Mortality Improvements Life Working Group (MILWG): 2023 HMI and FMI Scale Update

SOA Research Institute

American Academy of Actuaries

Academy Mortality Improvements Life Work Group (MILWG)
SOA Mortality and Longevity Oversight Advisory Council (MLOAC)

PRESENTED ON Life Actuarial Task Force (LATF) Call—7/20/23

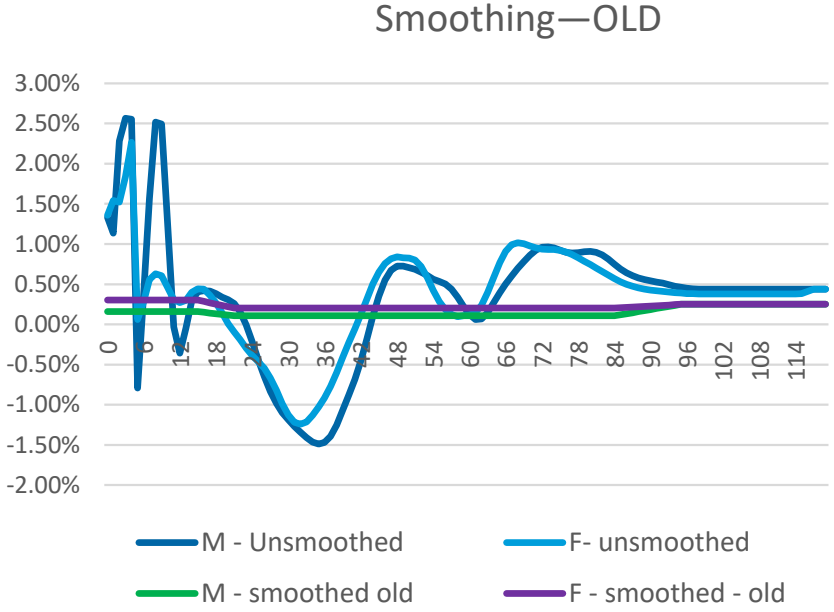
Revisit Smoothing Process

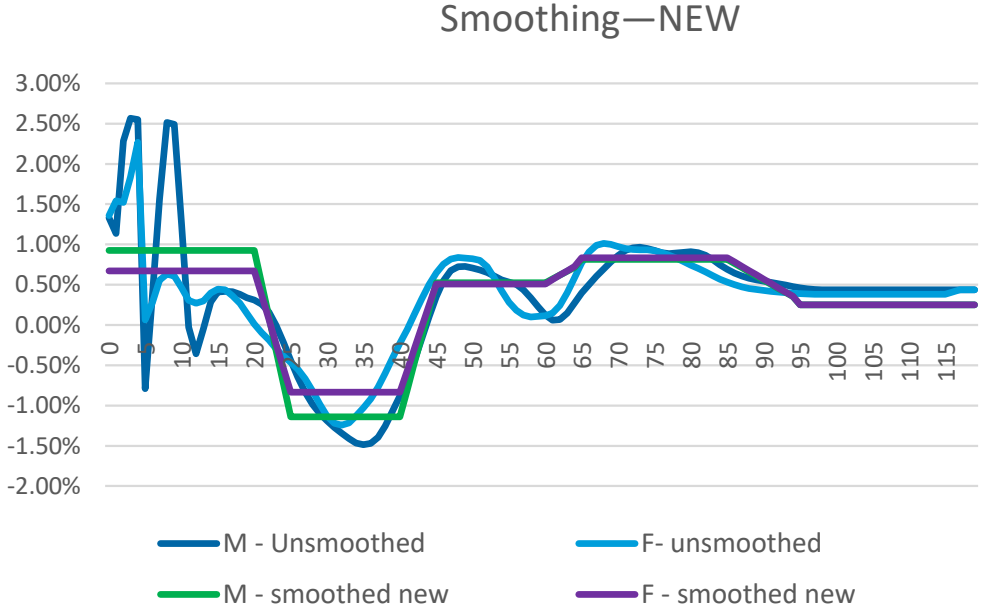
Review Smoothing Approach

	Current Method	Recommendation
1. Ages 0-15 (juvenile)	Use adult average (18-84) x 1.5	Use 0-20 average
2. Ages 16-20	Linear interpolation from juvenile rate to adult rate at age 21	Use 0-20 average
3. Ages 21-84	**Use Adult Average 18-84**	**Break into more detailed age groups:** **0-20** **25-40** **45-60** **65-85** **Linear interpolation between groups.**
4. Ages 85-94	Linear interpolation from adult rate to .0025 per year ultimate level at age 95	Linear interpolation from 65-85 average to .001 per year ultimate level at age 95 (use .001 due to COVID considerations)
5. Ages 95 and later	Use constant .0025 (used .001 for 2022 due to COVID impact considerations)	Use constant .001 due to COVID considerations

Comparison of Smoothing Approaches

2023 Recommended HMI scale





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COVID-19 Impact—2023 Approach

COVID-19 Impact

COVID-19 Impact Considerations

- Ensuring COVID-19 impact is considered
- Some companies with high credibility will use their best estimate mortality (including implied historical improvement) for long periods before grading to industry
  - Creates potential disconnect between HMI and the recommended industry FMI scale

Recommendation: COVID impact will be included in the first few years of the FMI scale for 2023 (similar to approach for 2022 scale work)

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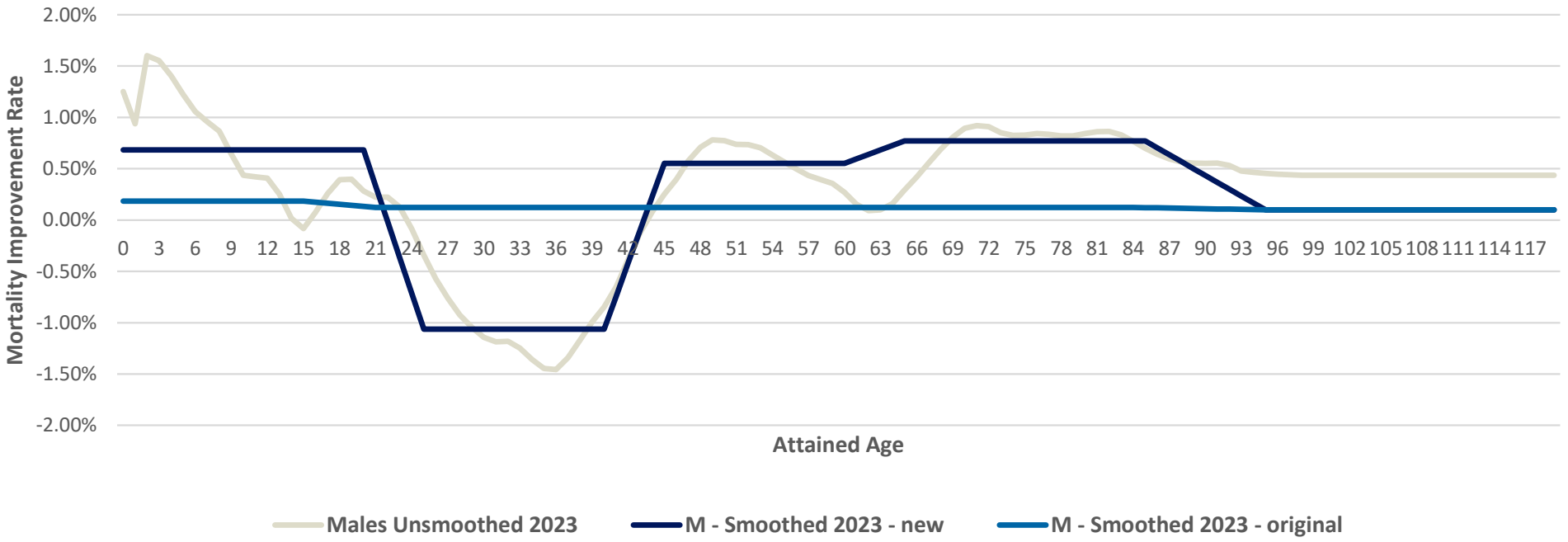
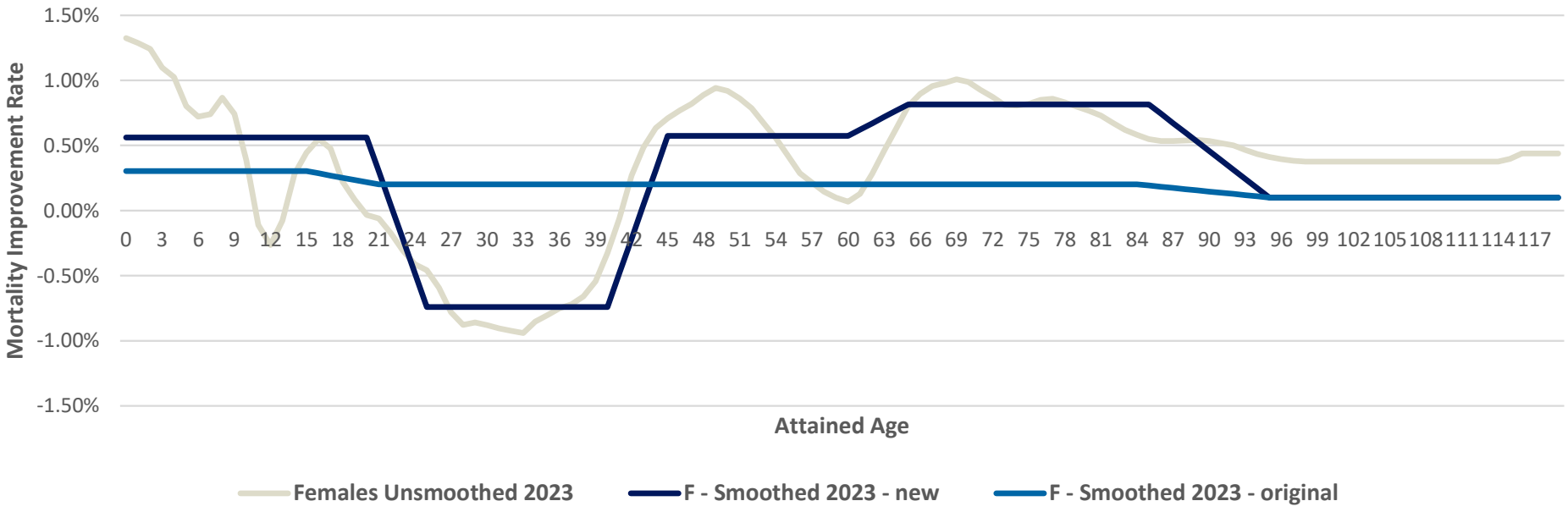
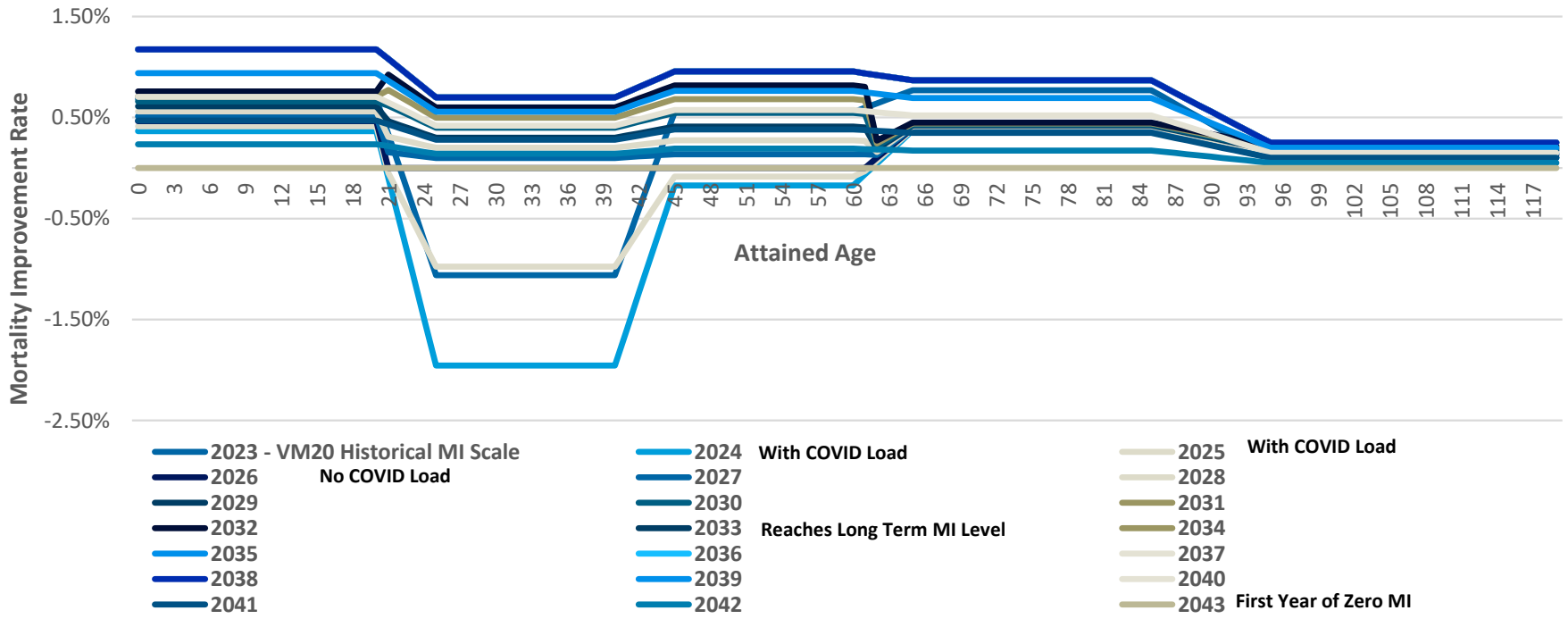
HMI 2023 Recommendation
Male, Mortality Improvement Rates



HMI 2023 Recommendation
Female, Mortality Improvement Rates



FMI 2023 Recommendation—Basic Scale Male, Future Mortality Improvement Rates



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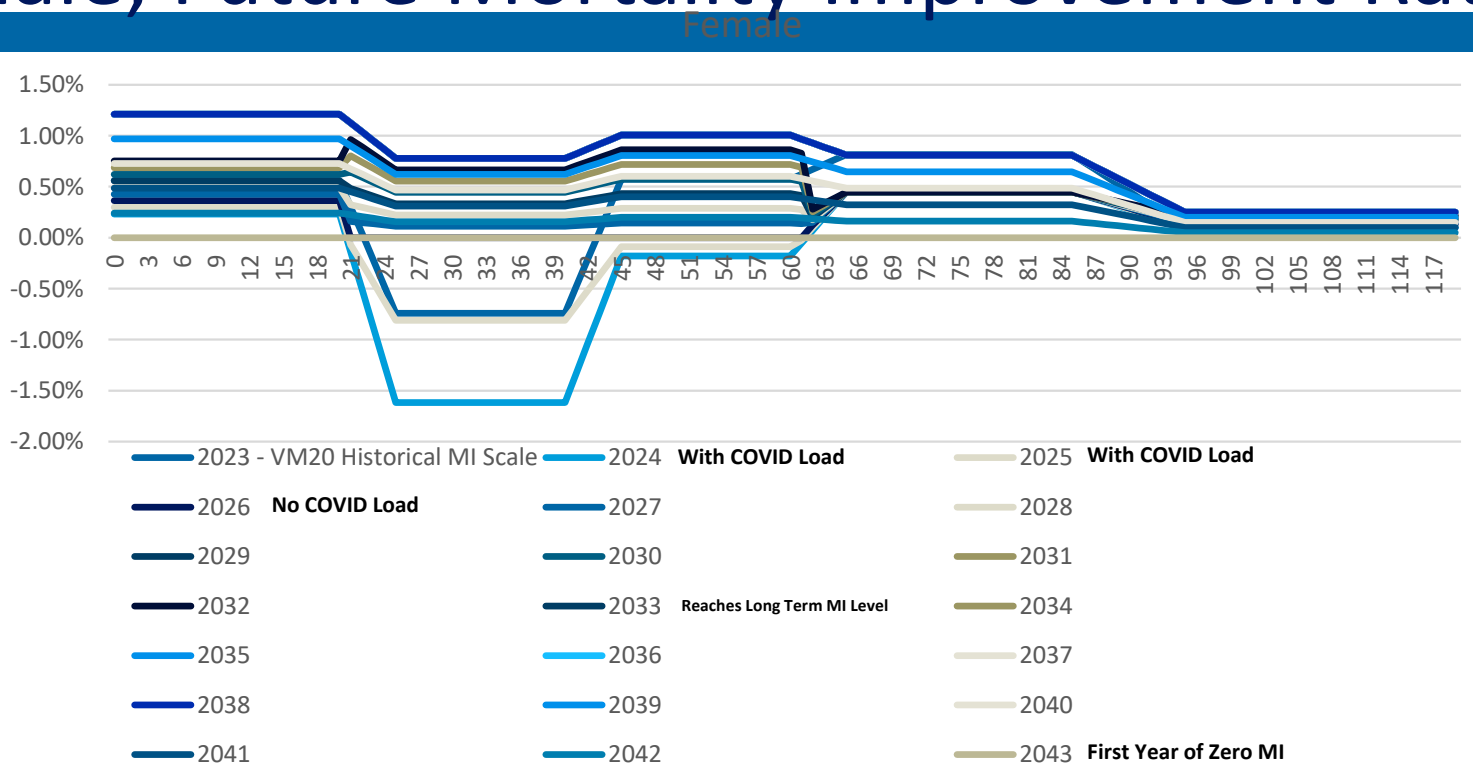
FMI 2023 Recommendation—Basic Scale Female, Future Mortality Improvement Rates



Questions?

Contact Information

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Life MI Subgroup Members

Marianne Purushotham, FSA, MAAA (Chair)
Cynthia Edwalds, FSA, MAAA
Sam Gutterman, FSA, MAAA
Tim Hoxha, FSA, MAAA
Mary Simmons, FSA, MAAA
Jean-Marc Fix, FSA, MAAA
Larry Stern, FSA, MAAA
Mark Rosa, FSA, MAAA
Cynthia MacDonald, FSA, MAAA

Members available to provide supplementary information and explanation as needed.

NAIC Model Office Considerations

Scott O'Neal FSA, MAAA

August 11, 2023

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

NAIC Model Office

ULSG

Universal Life with Secondary Guarantees (ULSG) model—long-duration product, larger potential for reserve reduction

- Model office and assumptions same as used in the yearly renewable term (YRT) representative model analysis
- Lifetime shadow account secondary guarantee
- No reinsurance in the model

Component	Values
Issue ages	Decennial issue ages 30 – 70
Gender	Male Female
Risk classes	Preferred non-tobacco Standard non-tobacco Standard tobacco
Face bands	Low ($250,000) High ($1,000,000)

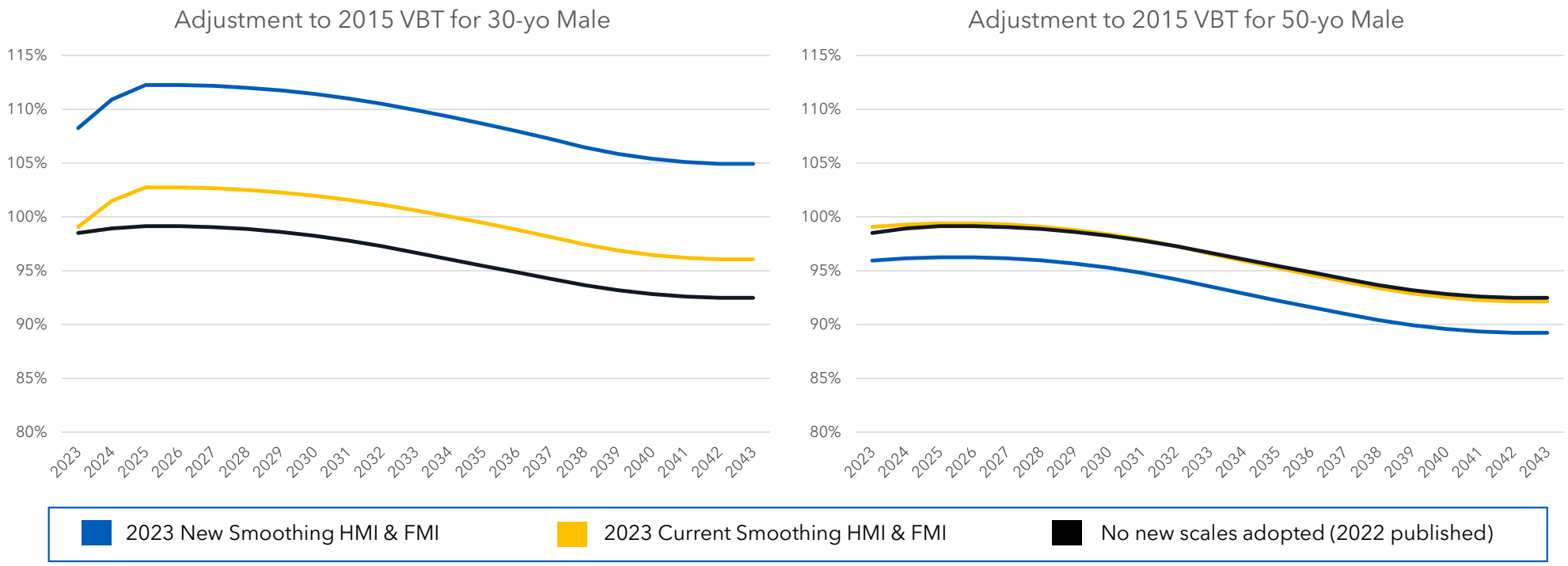
Term

Term Life Insurance Product with 10- and 20-year level premium periods

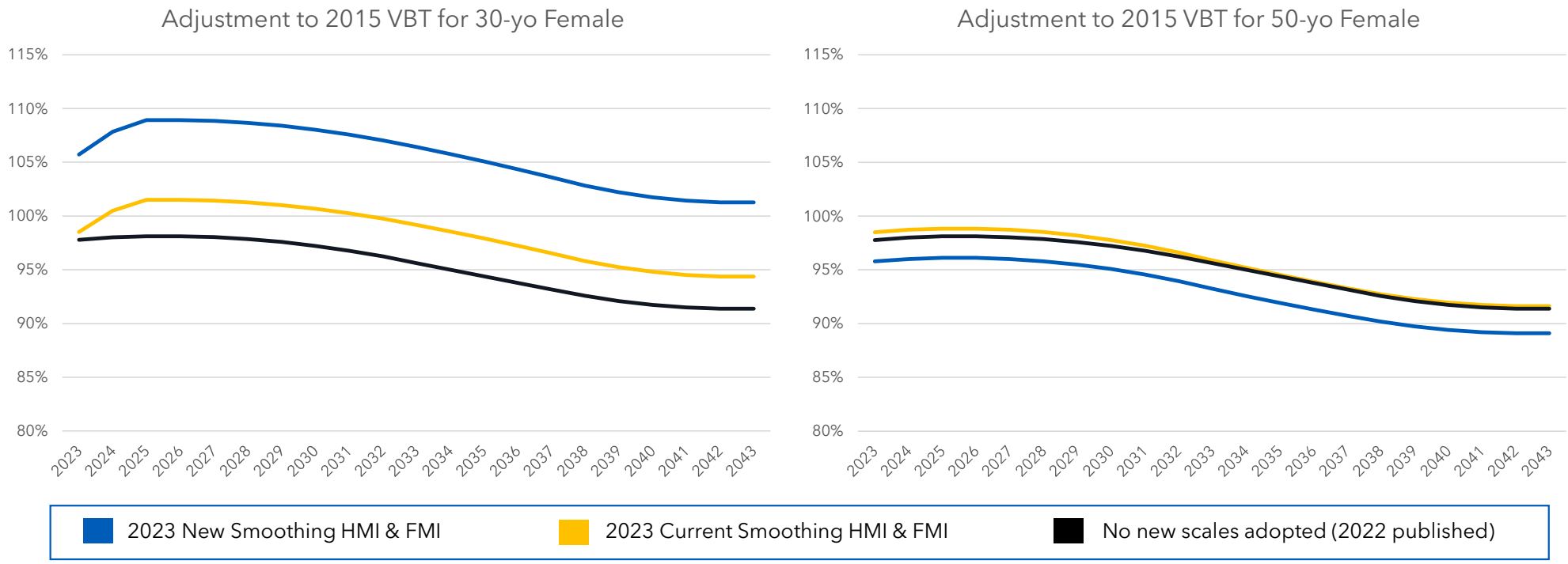
- Model office and assumptions same as used in the YRT representative model analysis
- Mature at age 95
- 100% shock lapse at end of level term period

Component	Values
Issue ages	Decennial issue ages 20 – 60
Gender	Male Female
Risk classes	Preferred non-tobacco Standard non-tobacco Standard tobacco
Face bands	Low ($250,000) High ($1,000,000)
Term lengths	10 year 20 year

Male Mortality Adjustment Comparison 30-year-old vs 50-year-old issued in 2023



Female Mortality Adjustment Comparison 30-year-old vs 50-year-old issued in 2023



NAIC Model Office Considerations

- Model office has an equal weight of each issue age, risk class, gender, face amount which may not be representative of the industry.
- For YE 2023, the scalar applied to the model office: (1-HMI)^7.5 (6/2015 to12/2023)
  - The proposed HMI has deterioration for the proposed smoothing method for ages 25-40:**1.08** for a 30-yo male
  - The proposed HMI has slight improvement to mortality for ages 45-60: **0.96** for a 50-yo male
- We apply the HMI factors to both industry and company mortality in the model office, though companies that have highly credible data may not use the HMI to adjust the company mortality.
- GOES Field Test Participation:
  - Term: About half the GOES Field Test Participants for VM-20 had negative Term DR
  - ULSG: All baseline DR was positive

Next Steps

- Compare Term and ULSG model office results to understand the new HMI smoothing methodology impact to reserves
- Analyze model office results of a cohort with mortality deterioration and a cohort with mortality improvement cohorts to illustrate the new smoothing impact to reserves
  - 30-year-olds represent mortality deterioration
  - 50-year-olds represent mortality improvement
- Present findings after summer national meeting

Agenda Item 5

Consider Exposure of Amendment Proposal Form (APF) 2023-09, Historical and Future Mortality Improvement Consistency

Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force
Amendment Proposal Form*

1. Identify yourself, your affiliation and a very brief description (title) of the issue.

   Identification:
   Rachel Hemphill, FSA, FCAS, MAAA, Ph.D.

   Title of the Issue:
   Add guidance on consistency of HMI and FMI rates.

2. Identify the document, including the date if the document is "released for comment," and the location in the document where the amendment is proposed:

   VM-20 Section 9.C.2.h

   January 1, 2023 NAIC Valuation Manual

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted or changed by providing a red-line (turn on "track changes" in Word®) version of the verbiage. (You may do this through an attachment.)

   See attached.

4. State the reason for the proposed amendment? (You may do this through an attachment.)

   For the last two years, the SOA has been restricted in the form of the historical and future mortality improvement rates that they are able to recommend, as the *Valuation Manual* pairs the industry future mortality improvement with both company-specific historical mortality improvement as well as industry historical mortality improvement. Therefore, the SOA's future mortality improvement recommendation has not been able to assume a specific treatment of any considerations, such as COVID, in the historical mortality improvement.

   Rather than continuing this restricted form of recommendations, this APF proposes to require that companies ensure that they are applying historical mortality improvement rates that are consistent with any considerations specifically identified by the SOA, adopted by LATF, and published along with the mortality improvement factors (e.g., COVID).

   Also, because mortality improvement may be negative, the requirement should be that HMI "shall" be applied to the company mortality rates not "may" be applied.

* This form is not intended for minor corrections, such as formatting, grammar, cross–references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
7/20/23	SO		
Notes: 2023-09			

VM-20 9.C.2.h

h. Mortality improvement shall not be incorporated beyond the valuation date in the company experience mortality rates. However, historical mortality improvement from the central point of the underlying company experience data to the valuation date ~~may~~ shall be incorporated. The company shall ensure that any specific considerations identified by the SOA, adopted by the Life Actuarial (A) Task Force, and published on the SOA website, at [link/reference to SOA site TBD] are reflected in the development of the company's historical mortality improvement assumption.

Guidance Note: Mortality improvement may be positive or negative (i.e., deterioration).

Agenda Item 6

Hear a Presentation on Interest Rate Acceptance Criteria for the Generator of Economic Scenarios (GOES)
(Materials Pending)

Agenda Item 7

Hear a Presentation on the C-3 Phase I
GOES Field Test Results
(Materials Pending)

Agenda Item 8

Hear an Update from the Interstate Insurance Product Regulation Commission (Compact)
(No Materials)

Agenda Item 9

Hear an Update on Pre-Tax Versus Post-Tax
Interest Maintenance Reserves (IMRs)
(No Materials)

Agenda Item 10

Hear an Update on SOA
Research and Education

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SOCIETY OF ACTUARIES RESEARCH UPDATE TO LATF

August 12, 2023

Cindy MacDonald, FSA, MAAA
Senior Director, Experience Studies

Presentation Disclaimer

The material and information contained in this presentation is for general information only. It does not replace independent professional judgment and should not be used as the basis for making any business, legal or other decisions. The Society of Actuaries assumes no responsibility for the content, accuracy or completeness of the information presented.

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SOA Experience Studies
Regulator Input on Prioritization

Experience Studies Pro

In 2021, LIMRA and the SOA Research Institute entered into a partnership to support the industry with a **comprehensive program of industry experience studies**.

This program will provide timely, consistent, and comprehensive releases of industry experience data — providing you with the necessary tools for addressing **product development, pricing, and regulatory** strategies.

SOA Research INSTITUTE

LIMRA

Together, We have Unmatched Breadth & Depth of Experience

Expertise

We are both associations dedicated to this industry, with a long history of conducting large data-intensive efforts

Trust

Strong reputation for unbiased research, analysis, and industry relationships

Value

Together we provide unparalleled value while delivering cost-effective insights

SOA Research Institute

LIMRA

Benefits to the Industry

Credible, robust, benchmarking, and strong industry representation:
70% market participation is typical

Comprehensive and timely: updates of industry data on a regularly published schedule

Detailed and deeper analytics: to support product development, inforce management, reserving, and growth strategies

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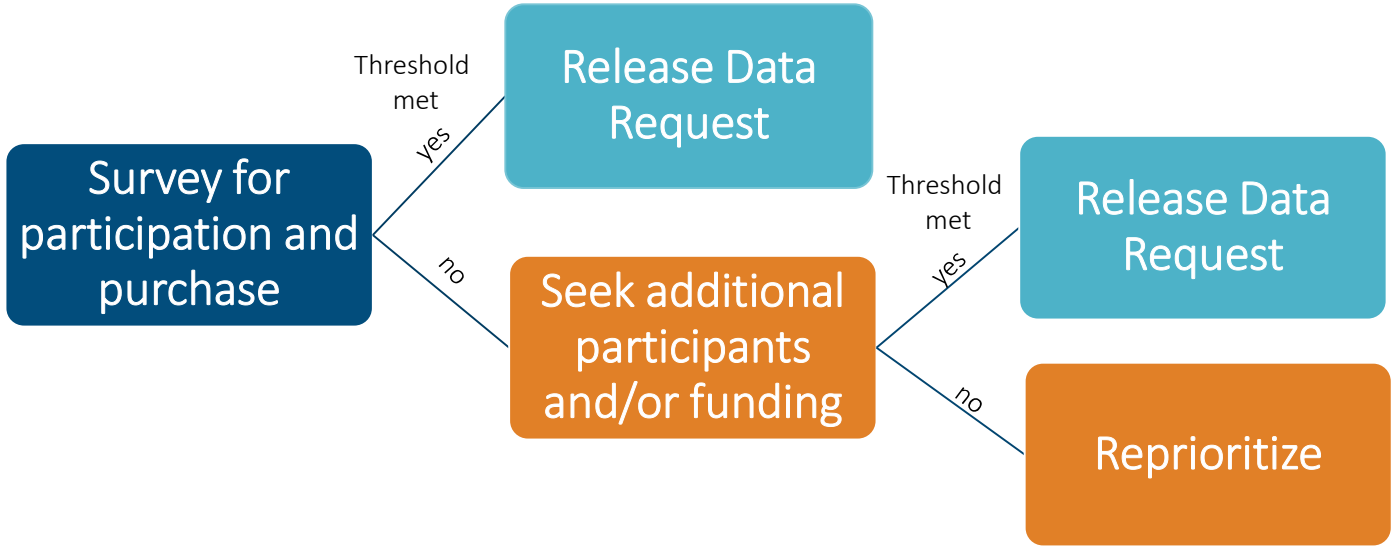
LIMRA

Feasibility Survey … before a study starts



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Studies at Risk for Participation and Funding

Product	Contingency Studied	Funding Concerns
Long-term care	claim incidence, claim termination, claim utilization, active life lapse and mortality	Blocks in run-off; complicated study/higher cost
Individual disability	claim incidence, claim termination	Few carriers; complicated study/higher cost
Group annuity	mortality	Few carriers; niche line of business
Structured settlements	mortality	Few carriers; niche line of business

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LATF Interest Survey Results

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Results Regulator Interest Survey - LATF

Experience Study	
Individual Payout Annuity – mortality	★
Individual Fixed Indexed Annuity – premium deposits, withdrawals, surrenders	★
Individual Variable Annuity – premium deposits, withdrawals, surrenders	★
Individual Life – mortality	★
Individual Fixed Deferred Annuity – surrenders	★
Individual Universal Life – premium persistency	★
Individual Universal Life – lapse, surrender	★
Individual Term Life – post level term lapse and mortality	
Individual Term Life – term conversion, lapse, mortality	
Individual Fixed Deferred Annuity – mortality	★
Group Life – mortality	★
Group Annuity – mortality	
Structured Settlement Annuity – mortality	

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Results Regulator Interest Survey - LATF

Tables/Projects
Individual Payout Annuity – mortality
Individual Life – mortality
Individual Fixed Deferred Annuity – mortality
Group Annuity – mortality
Structured Settlement Annuity – mortality

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Comments

- LATF
  - Surrender information following a rise in rates will be available for the first time in decades.
  - A "return to normal" (or not) will be indicated by mortality data.
  - Guaranteed Issue Life Mortality - not a high priority but in the middle.

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What can regulators do to help?

For studies, tables, project desired by regulators

- Help us clarify the prioritization
- Support/encourage voluntary participation in Experience Study Pro studies
- Support/encourage potential funding through NAIC, where funding through direct sales is not feasible

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Discussion

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Additional Life Research

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Experience Studies

Project Name	Objective	Link/Expected Completion Date
COVID-19 Individual Life Mortality Study - Experience Study Report - 2022 Q2	Complete a mortality study assessing the impact of COVID-19 on Individual Life Insurance.	https://www.soa.org/resources/research-reports/2023/ind-life-covid-mort-landing/
COVID-19 Reported Claims Study - 4Q 2022 Update	Draft a research study reviewing Covid-19 reported deaths by quarter.	https://www.soa.org/49c0c1/globalassets/assets/files/resources/research-report/2023/covid-reported-claims-analysis-q4.pdf
Economic Scenario Generator - 2023 Update	Update the AAA Economic Scenario Generator Annually.	https://www.soa.org/resources/tables-calcs-tools/research-scenario/
Group Life COVID-19 Mortality Survey Update - through December 2022	Complete an update on a mortality study assessing the impact of COVID-19 on Group Life Insurance.	https://www.soa.org/resources/experience-studies/2022/group-life-covid-19-mortality-12-2022/
COVID-19 Individual Life Mortality Study - Experience Study Report - 2022 Q3	Complete a mortality study assessing the impact of COVID-19 on Individual Life Insurance.	7/27/2023
2019-20 Fixed Indexed Annuity Study - Report	Examine lapse and the utilization of guaranteed living withdrawal benefit options on fixed index annuity policies under a Joint SOA/LIMRA project and release Tableau visualizations with the observations from the study.	8/8/2023
COVID-19 Cause of Death Study - 2022 Q1 Update	Publish a semi-annual cause of death study for individual life insurance.	8/15/2023
COVID-19 Individual Life Mortality Study - Experience Study Report - 2022 Q4	Complete a mortality study assessing the impact of COVID-19 on Individual Life Insurance.	8/15/2023
COVID-19 Reported Claims Study - 1Q 2023 Update	Reviews Covid-19 reported deaths by quarter.	8/15/2023
2009-2015 Individual Life Experience Committee Lapse and Mortality Study	Study mortality and lapse experience in the database of 2009-2015 individual life experience data and release a report with the findings.	8/30/2023
GRET for 2024	Develop the Generally Recognized Expense Table (GRET) for 2024.	9/15/2023
2019 Quintile Analysis	Ranks individual company experience into quintiles.	9/28/2023
2023 Life Mortality Improvement	Develop AG38 mortality improvement assumptions for YE 2023.	9/29/2023
2019-21 Variable Annuity Guaranteed Living Benefit Utilization Study - Report	Examine the utilization of guaranteed living benefit options on variable annuity policies under a Joint SOA/LIMRA project.	9/30/2023

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Practice Research & Data Driven In-house Research

Project Name	Objective	Link/Expected Completion Date
Reimagining Pharmacy	18/11 Style Gathering to discuss pharmacy.	https://www.soa.org/resources/research-reports/2023/reimagining-pharmacy-finance/
International Comparison of Regulatory Requirements Study Note; 2021.08	Capital Adequacy Regulatory Requirements in Life Insurance across 4 key models in the US, Canada, EU and Bermuda.	6/30/2023
Expert Opinion on Impact of COVID-19 on Future Mortality - Survey 2	Survey panel of experts on short and mid term thoughts on future population and insured mortality.	8/15/2023
Maternal Mortality	Study maternal mortality in US and compare to other countries.	8/15/2023
Mortality and Race	Summarize available literature on mortality and race and discuss actuarial aspects.	8/15/2023
Unhealthy Longevity	Examine differences in mortality/longevity between impaired vs healthy lives.	8/15/2023
Accelerated Underwriting Survey and Impact of COVID in Underwriting	Update prior survey and explore the way insurers have adapted their underwriting practices.	8/31/2023
Challenges with Defining Fairness for Life Insurance	Summarize the challenges and complexities with defining and measuring fairness for life insurance products and processes.	8/31/2023
2023 Living to 100	Produce body of research to help with old age mortality modeling and projection and research to support the needs of an increasing aging population.	9/15/2023

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Agenda Item 11

Hear an Update from the Academy Council
on Professionalism and Education
(No Materials)

Agenda Item 12

Hear an Update from the American Academy of Actuaries (Academy) Life Practice Council

Life Practice Council Update

Ben Slutsker, MAAA, FSA
Vice President, Life Practice Council
Amanda Barry-Moilanen
Policy Analyst, Life

Life Actuarial Task Force (LATF) Meeting

August 12, 2023

American Academy of Actuaries

Academy Webinars and Events

- Recent
  - PBR Bootcamp: Liability Assumption Development—June 21
  - PBR Bootcamp: Liability—July 26
- Upcoming
  - Holy Moly, Let's Talk COLI—August 29
  - Non-Variable Annuity PBR Framework Updates—September 6
  - PBR Bootcamp: Hedge Modeling—September 20
  - PBR Bootcamp: Reinsurance—October 18
  - Additional PBR webinars in 2023

American Academy of Actuaries

Recent Activity

- Created a new group, the Investment Analysis Subcommittee
  - Will engage in NAIC issues related to investment disclosures, financial statement classifications, and credit ratings.
- Released a Resource and Discussion Guide on an actuarial review of investments in actuarial modeling.
- Delivered comments to the Life Actuarial (A) Task Force on the Interest Maintenance Reserve (IMR) Template.
  - Delivered comments to the Statutory Accounting Principles Working Group on 2023 Net Negative (Disallowed) Interest Maintenance Reserve (INT 23-01T).

Recent Activity

- Delivered comments to the Risk-Based Capital Investment Risk and Evaluation (E) Working Group on Exposure 2023-09-IRE—Interim Residual Tranche Factor.

- Delivered comments to the ILVA Subgroup of the Product Standard Committee Interstate Insurance Product Regulation Commission on 2023 Compact Requirements for ILVA Products.

Ongoing Activity

- Developed education on economic scenario generators and acceptance criteria for the Life Actuarial (A) Task Force
- Engaging in the discussions on a fixed annuity principle-based reserving framework in the VM-22 (A) Subgroup
- Revisiting the covariance methodology in life risk-based capital
- Updating the asset adequacy analysis practice note
- Developing practice note on non-guaranteed elements

American Academy of Actuaries

Thank you

Questions?

- For more information, please contact the Academy's life policy analyst, Amanda Barry-Moilanen, at barrymoilanen@actuary.org.

American Academy of Actuaries

Agenda Item 13

Consider Exposure of the Generally Recognized Expense Tables (GRETs)

2024 GRET Recommendation

Tony Phipps, FSA, MAAA
Chair SOA Research Institute Committee on Life Insurance Expenses
August 12, 2023

Mortality and
Longevity

Agenda

- Methodology
- Recommendation
- Comparison to Prior Years
- Information on Companies in Study

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Methodology

1. Calculate Actual to Expected Expenses
   - Gather data points from company Annual Statement submissions provided by NAIC
   - Seed factors used to calculate expected expenses.
2. Determine Distribution Channel
   - Survey sent by SOA Research Institute to companies to determine primary distribution channel.
   - This channel is used or the historical distribution channel for those companies that did not respond.
3. Remove outlier companies
4. Analyze data to derive unit expense factors by those Distribution Channels

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Seed Values

Expenses allocated to acquisition and maintenance categories using the same seeds as has been previously used:

- Acquisition/Policy: $200.00
- Acquisition/Face Amount: $1.10
- Acquisition/Premium: 50%
- Maintenance/Policy: $60.00

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Recommendation for 2024 GRET Factors

Proposed 2024 GRET Factors Based on Average of 2021/2022 Data					
Description	Acquisition per Policy	Acquisition per Unit	Acquisition per Premium	Maintenance per Policy	Company Count
Independent	$198	$1.10	50%	$59	140
Career	206	1.10	52%	62	90
Direct Marketing	217	1.20	54%	65	23
Niche Marketing	132	0.70	33%	40	31
Other*	162	0.90	41%	49	95
* Includes companies that did not respond to this or prior year surveys					379

Current 2023 GRET Factors Based on Average of 2020/2021 Data					
Description	Acquisition per Policy	Acquisition per Unit	Acquisition per Premium	Maintenance per Policy	Company Count
Independent	$180	$1.00	45%	$54	141
Career	203	1.10	51%	61	84
Direct Marketing	197	1.10	49%	59	21
Niche Marketing	147	0.80	37%	44	30
Other*	153	0.90	39%	46	106
* Includes companies that did not respond to this or prior year surveys					382

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Comparison to Prior Years

Acquisition per Policy					
Description	2023	Percentage Change	2022	Percentage Change	2021
Independent	$198	10%	$180	-2%	$183
Career	206	1%	203	-4%	212
Direct Marketing	217	10%	197	-2%	200
Niche Marketing	132	-10%	147	-3%	151
Other*	162	6%	153	10%	139

* Includes companies that did not respond to this or prior year surveys

Acquisition per Unit					
Description	2023	Percentage Change	2022	Percentage Change	2021
Independent	$1.10	10%	$1.00	0%	$1.00
Career	1.10	0%	1.10	-8%	1.20
Direct Marketing	1.20	9%	1.10	0%	1.10
Niche Marketing	0.70	-13%	0.80	-11%	0.90
Other*	0.90	0%	0.90	13%	0.80

* Includes companies that did not respond to this or prior year surveys

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Comparison to Prior Years

Acquisition per Premium					
Description	2023	Percentage Change	2022	Percentage Change	2021
Independent	50%	11%	45%	-2%	46%
Career	52%	2%	51%	-4%	53%
Direct Marketing	54%	10%	49%	-2%	50%
Niche Marketing	33%	-11%	37%	0%	37%
Other*	41%	5%	39%	11%	35%

* Includes companies that did not respond to this or prior year surveys

Maintenance per Policy					
Description	2023	Percentage Change	2022	Percentage Change	2021
Independent	$59	9%	$54	-2%	$55
Career	62	2%	61	-5%	64
Direct Marketing	65	10%	59	-2%	60
Niche Marketing	40	-9%	44	-2%	45
Other*	49	7%	46	10%	42

* Includes companies that did not respond to this or prior year surveys

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Survey Results

- Percent of survey respondents that that responded that GRET factors are used for individual life sales illustration purposes:

Pecentage of Companies that use GRET Factors	
Survey Year	Percentage
2022	44%
2022	35%
2021	31%
2020	29%
2019	26%
2018	28%
2017	30%
2016	26%

- We believe variation is a result of the mix of respondents and the limited number of responses

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Information on Companies in Study

- NAIC Data extracts included:
  - 2022: 749 companies
  - 2021: 766 companies
- Total ordinary policies issued saw a decrease of 8.45% (850k) in 2022 after seeing an increase of 3.1% (312k) in the previous year.
- The final companies used in the GRET calculation was 379 in 2022, a decrease of 3 from the previous year after seeing an increase of 7 in the previous year.
- This year's survey, a record of 44% of respondents indicated they use GRET factors for individual life sales illustration purposes, continuing the increasing trend.

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Questions?

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TO: Rachel Hemphil, FFA, FCAS, MAAA, PHD, Chair, Life Actuarial (A) Task Force

FROM: Pete Miller, ASA, MAAA, Experience Study Actuary, Society of Actuaries (SOA) Research Institute
Tony Phipps, Chair, SOA Research Institute Committee on Life Insurance Company Expenses

DATE: August 4, 2023

RE: 2024 Generally Recognized Expense Table (GRET) – SOA Research Institute Analysis

Dear Ms. Hemphill:

As in previous years, the Society of Actuaries Research Institute expresses its thanks to NAIC staff for their assistance and responsiveness in providing Annual Statement expense and unit data for the 2024 GRET analysis for use with individual life insurance sales illustrations. The analysis is based on expense and expense-related information reported on each company's 2021 and 2022 Annual Statements. This project has been completed to assist the Life Actuarial Task Force (LATF) in considering potential revisions to the GRET that could become effective for the calendar year 2024. This memo describes the analysis and resultant findings.

NAIC staff provided Annual Statement data for life insurance companies for calendar years 2021 and 2022. This included data from 766 companies in 2021 and 749 companies in 2022. This decrease resumes the trend of small decreases from year to year. Of the total companies, 379 were in both years and passed the outlier exclusion tests and were included as a base for the GRET factors (382 companies passed similar tests last year).

APPROACH USED

The methodology for calculating the recommended GRET factors based on this data is similar to that in the last several years. The methodology was last altered in 2015. The changes made then can be found in the recommendation letter sent to LATF on July 30, 2015.

To calculate updated GRET factors, the average of the factors from the two most recent years (2021 and 2022 for those companies with data available for both years) of Annual Statement data was used. For each company, an actual-to-expected ratio was calculated. Companies with ratios that fell outside predetermined parameters were excluded. This process was completed three times to stabilize the average rates. The boundaries of the exclusions have been modified from time to time; however, there were no adjustments made this year. Unit expense seed factors (the seeds for all distribution channel categories are the same), as shown in Appendix B, were used to compute total expected expenses. Thus, these seed factors were used to implicitly allocate expenses between acquisition and maintenance expenses, as well as among the three acquisition expense factors (on a direct of ceded reinsurance basis).

Companies were categorized by their reported distribution channel (four categories were used as described in Appendix A included below). There remain a significant number of companies for which no distribution channel was provided, as no responses to the annual surveys have been received from those companies. The characteristics of these companies vary significantly, including companies not currently writing new business or whose major line of business is not individual life insurance. Any advice or assistance from LATF in future years to increase the response rate to the surveys of companies that submit Annual Statements to reduce the number of companies in the “Other” category would be most welcomed.

The intention is to continue surveying the companies in future years to enable the enhancement of this multiple distribution channel information.

Companies were excluded from the analysis if in either 2021 or 2022, (1) their actual to expected ratios were considered outliers, often due to low business volume, (2) the average first year and single premium per policy were more than $40,000, (3) they are known reinsurance companies or (4) their data were not included in the data supplied by the NAIC. To derive the overall GRET factors, the unweighted average of the remaining companies' actual-to-expected ratios for each respective category was calculated. The resulting factors were rounded, as shown in Table 1.

THE RECOMMENDATION

The above methodology results in the proposed 2024 GRET values shown in Table 1. To facilitate comparisons, the current 2023 GRET factors are shown in Table 2. Further characteristics of the type of companies represented in each category are included in the last two columns in Table 1, including the average premium per policy issued and the average face amount ($000s) per policy issued.

To facilitate comparisons, the current 2023 GRET factors are shown in Table 2. Further characteristics of the type of companies represented in each category are included in the last two columns in Table 2, including the average premium per policy issued and the average face amount ($000s) per policy issued.

TABLE 1

PROPOSED 2024 GRET FACTORS, BASED ON AVERAGE OF 2021/2022 DATA

DESCRIPTION	Acquisition per Policy	Acquisition per Unit	Acquisition per Premium	Maintenance per Policy	Companies Included	Average Premium Per Policy Issued During Year	Average Face Amt (000) Per Policy Issued During Year
Independent	$198	$1.10	50%	$59	140	3,433	222
Career	206	1.10	52%	62	90	2,325	196
Direct Marketing	217	1.20	54%	65	23	767	122
Niche Marketing	132	0.70	33%	40	31	347	10
Other*	162	0.90	41%	49	95	917	80
* Includes companies that did not respond to this or prior year surveys					379		

TABLE 2

CURRENT 2023 GRET FACTORS, BASED ON AVERAGE OF 2020/2021 DATA

Description	Acquisition per Policy	Acquisition per Unit	Acquisition per Premium	Maintenance per Policy	Companies Included	Average Premium Per Policy Issued During Year	Average Face Amt (000) Per Policy Issued During Year
Independent	$180	$1.00	45%	$54	141	3,073	204
Career	203	1.10	51%	61	84	2,296	197
Direct Marketing	197	1.10	49%	59	21	899	57
Niche Marketing	147	0.80	37%	44	30	507	14
Other*	153	0.90	39%	46	106	853	72
* Includes companies that did not respond to this or prior year surveys					382		

In previous recommendations, an effort was made to reduce volatility in the GRET factors from year to year by limiting the yearly change in GRET factors to about ten percent of the prior value. The changes from the 2023 GRET were reviewed to ensure that a significant change was not made in this year's GRET recommendation.

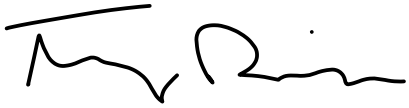
All GRET factors for the Independent and the Direct Marketing distribution channel experienced changes greater than ten percent, so the factors for these lines were capped at the ten percent level (or slightly above/below 10% due to rounding of the factor) from the corresponding 2023 GRET values. The volatility occurred due to an increasing median actual-to-expected ratio for each distribution channel, which allowed for additional companies with higher actual-to-expected ratios to be included in the calculation that were previously dropped. The driving force behind the notable increase in median actual-to-expected ratios for Independent and Direct Marketing were several significant outlier companies. Niche Marketing experienced the opposite, with lower median actual-to-expected ratios allowing several additional companies with lower actual-to-expected ratios, and the factors need to be capped at a ten percent drop.

USAGE OF THE GRET

This year's survey, responded to by each company's Annual Statement correspondent, included a question regarding whether the 2023 GRET table was used in its illustrations by the company. Last year, 35% of the responders indicated their company used the GRET for sales illustration purposes, with similar percentage results by company size; this contrasted with about 31% in 2021. This year, 44% of responding companies indicated they used the GRET in 2023 for sales illustration purposes. The range covered all distribution methods, including 48% for Independent, 32% for Career, 40% for Niche Marketers, and 60% for Direct Marketing. Based on the information received over the last several years, the variation in GRET usage appears to be in large part due to the relatively small sample size and different responders to the surveys.

We hope LATF finds this information helpful and sufficient for consideration of a potential update to the GRET. If you require further analysis or have questions, please contact Pete Miller at 847-706-3566.

Kindest personal regards,



Pete Miller, ASA, MAAA
Experience Studies Actuary
Society of Actuaries Research Institute

Tony Phipps, FSA, MAAA
Chair, SOA Research Institute Committee on
Life Insurance Company Expenses

APPENDIX A -- DISTRIBUTION CHANNELS

The following is a description of distribution channels used in the development of recommended 2023 GRET values:

1. Independent – Business written by a company that markets its insurance policies through an independent insurance agent or insurance broker not primarily affiliated with any one insurance company. These agencies or agents are not employed by the company and operate without an exclusive distribution contract with the company. These include most PPGA arrangements.

2. Career – Business written by a company that markets insurance and investment products through a sales force primarily affiliated with one insurance company. These companies recruit, finance, train, and often house financial professionals who are typically referred to as career agents or multi-line exclusive agents.

3. Direct Marketing – Business written by a company that markets its own insurance policies direct to the consumer through methods such as direct mail, print media, broadcast media, telemarketing, retail centers and kiosks, internet, or other media. No direct field compensation is involved.

4. Niche Marketers – Business written by home service, pre-need, or final expense insurance companies as well as niche-market companies selling small face amount life products through a variety of distribution channels.

5. Other – Companies surveyed were only provided with the four options described above. Nonetheless since there were many companies for which we did not receive a response (or whose response in past years' surveys confirmed an "other" categorization (see below), values for the "other" category are given in the tables in this memo. It was also included to indicate how many life insurance companies with no response (to this survey and prior surveys) and to indicate whether their exclusion has introduced a bias into the resulting values.

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APPENDIX B – UNIT EXPENSE SEEDS

The expense seeds used in the 2014 and prior GRETs were differentiated between branch office and all other categories, due to the results of a relatively old study that had indicated that branch office acquisition cost expressed on a per Face Amount basis was about double that of other distribution channels. Due to the elimination of the branch office category in the 2015 GRET, non-differentiated unit expense seeds have been used in the current and immediately prior studies.

The unit expense seeds used in the 2024 GRET and the 2023 GRET recommendations were based on the average of the 2006 through 2010 Annual SOA expense studies. These studies differentiated unit expenses by type of individual life insurance policy (term and permanent coverages). As neither the GRET nor the Annual Statement data provided differentiates between these two types of coverage, the unit expense seed was derived by judgment based this information. The following shows the averages derived from the Annual SOA studies and the seeds used in this study. Beginning with the 2020 Annual Statement submission this information will become more readily available.

2006-2010 (AVERAGE) CLICE STUDIES:

	Acquisition/ Policy	Acquisition/ Face Amount (000)	Acquisition/ Premium	Maintenance/ Policy
Term				
Weighted Average	$149	$0.62	38%	$58
Unweighted Average	$237	$0.80	57%	$76
Median	$196	$0.59	38%	$64
Permanent				
Weighted Average	$167	$1.43	42%	$56
Unweighted Average	$303	$1.57	49%	$70
Median	$158	$1.30	41%	$67

CURRENT UNIT EXPENSE SEEDS:

	Acquisition/ Policy	Acquisition/ Face Amount (000)	Acquisition/ Premium	Maintenance/ Policy
All distribution channels	$200	$1.10	50%	$60

Agenda Item 14

Discuss IMR Guidance, APF 2023-08, and IMR Template

August XX, 2023

To: Members of the Life Actuarial (A) Task Force
From: NAIC Staff
RE: Guidance on Allocating Negative IMR (PIMR) In VM-20, VM-21, and VM-30

Executive Summary
While the potential admittance of some portion of negative Interest Maintenance Reserve (IMR) is being considered by the Statutory Accounting Practices (E) Working Group (SAPWG), continued guidance on the proper practice for allocating IMR for principles-based reserving (PBR) and asset adequacy testing purposes may be helpful for companies in the near term.

Background
LATF issued guidance on November 17, 2022 (Attachment A) on allocating negative IMR (PIMR) in VM-20, VM-30, VM-31. Since then, SAPWG has continued to discuss the potential admittance of some portion of negative IMR. In light of these ongoing discussions, continued guidance is needed to ensure consistent treatment for negative IMR in PBR and asset adequacy testing. Due to the timing of Valuation Manual updates, the earliest that such guidance can practically be added to the Valuation Manual is for year-end 2025. Therefore, LATF is issuing additional guidance for 2023 and 2024.

Recommendation
In order to assist state regulators and companies in achieving uniform outcomes for year-end 2023 and 2024 , we have the following recommendation: the allocation of IMR in VM-20, VM-21, and VM-30 should be principle- based, "appropriate", and "reasonable". Companies are not required to allocate any non-admitted portion of IMR (or PIMR, as applicable) for purposes of VM-20, VM-21, and VM-30, as being consistent with the asset handling for the non-admitted portion of IMR would be part of a principle-based, reasonable and appropriate allocation. However, any portion of negative IMR that is an admitted asset, should be allocated for purposes of VM-20, VM-21, and VM-30, as again a principle- based, reasonable and appropriate IMR allocation would be consistent with the handling of the IMR asset.

This recommended guidance is for year-end 2023 and 2024, to address the current uncertainty and concerns with the "double-counting" of losses. This recommended guidance will help ensure consistency between states and between life insurers in this volatile rate environment. This guidance is expected to be incorporated in the 2025 Valuation Manual.

November 17, 2022

To: Members of the Life Actuarial (A) Task Force
From: NAIC Staff
RE: Guidance on Allocating Negative IMR (PIMR) In VM-20, VM-21, and VM-30

Executive Summary
With the rapidly rising interest rate environment, companies selling fixed income assets for a loss are seeing their Interest Maintenance Reserve (IMR) balances decrease or even become negative. Current statutory accounting treatment makes negative IMR a non-admitted asset. While a longer-term evaluation of IMR is being considered by the Statutory Accounting Practices (E) Working Group (SAPWG), additional guidance on the proper practice for allocating IMR for Asset Adequacy Testing and Principle-based Reserving purposes may be helpful for companies in the near term.

Background
The letter to SAPWG from the American Council of Life Insurers (ACLI) (Attachment 1) notes that "…with the inclusion of a negative IMR balance in asset adequacy testing, the disallowance of a negative IMR can result in double counting of losses (i.e., through the disallowance on the balance sheet and the potential AAT-related reserve deficiency)." There are several sections of the Valuation Manual and RBC instructions where IMR is referenced in the letter. Some of these references contemplate allocating negative IMR (or pre-tax IMR (PIMR), as applicable) at the level of business that is being analyzed/reserved for. However, these references do not detail what to do when the total company IMR balance is negative – and therefore a non-admitted asset under current statutory guidance.

Other references do provide additional insight as to the allocation of IMR when the total company balance is negative/disallowable. VM-20 Section 7.D.7.b notes that "…the company shall use a reasonable approach to allocate any portion of the total company balance that is disallowable under statutory accounting procedures (i.e., when the total company balance is an asset rather than a liability)." Question 22 of the AAA's Asset Adequacy Practice Note (Attachment 2) states that "… a negative IMR is not an admitted asset in the annual statement. So, some actuaries do not reflect a negative value of IMR in the liabilities used for asset adequacy analysis." However, Question 22 also notes a 2012 survey data that showed varying practices across companies, including some companies that allocated negative IMR.

Recommendation
In order to assist state regulators and companies in achieving uniform outcomes for year-end 2022, we have the following recommendation: the allocation of IMR in VM-20, VM-21, and VM-30 should be principle-based, "appropriate", and "reasonable". Companies are not required to allocate any non-admitted portion of IMR (or PIMR, as applicable) for purposes of VM-20, VM-21, and VM-30, as being consistent with the asset handling for the non-admitted portion of IMR would be part of a principle-based, reasonable and appropriate allocation. However, if a company was granted a permitted practice to admit negative IMR as an asset, the company should allocate the formerly non-admitted portion of negative IMR, as again a principle-based, reasonable and appropriate IMR allocation would be consistent with the handling of the IMR asset. This recommended guidance is for year-end 2022, to address the current uncertainty and concerns with the "double-counting" of losses. This recommended guidance will help ensure consistency between states and between life insurers in this volatile rate environment. Refinement of this guidance may be considered beyond year-end 2022.

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October 31, 2022

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Dear Mr. Bruggeman:

Re: Proposal for the NAIC to Fulfil the Original Intent of the Interest Maintenance Reserve

The American Council of Life Insurers (ACLI) would like to request urgent action on an issue that was never fully resolved by the NAIC and has become a pressing matter for the industry due to the rapid rise in interest rates – the allowance of a net negative Interest Maintenance Reserve (IMR) balance.

The ACLI proposes the allowance of a negative IMR balance in statutory accounting. Negative IMR balances are expected to become more prevalent in a higher interest rate environment and their continued disallowance will only serve to project misleading optics on insurers' financial strength (e.g. inappropriate perception of decreased financial strength through lower surplus and risk-based capital even though higher rates are favorable to an insurer's financial health) while creating uneconomic incentives for asset-liability management (e.g. discourage prudent investment transactions that are necessary to avoid mismatches between assets and liabilities just to avoid negative IMR).

ACLI believes the necessary changes can be implemented quickly and with minimal changes to the annual statement reporting instructions.

The remainder of this letter expands upon these points.

Historical Context and Background

The IMR, first effective in statutory accounting in 1992, requires that a realized fixed income gain or loss, attributable to changes in interest rates (but not gains or losses that are credit related), be amortized into income over the remaining term to maturity of the fixed income investments (and related hedging programs) sold rather than being reflected in income immediately.

Since statutory accounting practices for life insurance companies are the primary determinant of obtaining an accurate picture for assessing solvency, it was imperative that the accounting practices be consistent for assets, liabilities, and income and that they be reported on a financially consistent basis. If assets and liabilities were not reported on a financially consistent basis, then the financial statements would not be useful in determining an accurate assessment of solvency or whether there were sufficient assets to pay contractual obligations when they become due.

Amortized cost valuation of fixed income investments reflects the outlook at the time of purchase and amortization reflects the yields available at time of purchase. Policy reserve liabilities are established at the same time, and the interest rate assumptions are consistent with the yields at that time. But if fixed income investments are sold, with the proceeds reinvested in new fixed income investments, a new amortization schedule is established which may be based on an entirely different yield environment, which may be inconsistent with the reserve liabilities when they were established.

IMR was created to prevent the timing of the realization of gains or losses on fixed income investments, related to interest rates changes, to affect the immediate financial performance of the insurance company. This recognized that the gains and losses were transitory without any true economic substance since the proceeds would be reinvested at offsetting lower or higher interest rates.

For example, without the IMR, if a company sold all bonds in a declining interest environment (e.g., from 4% to 2%), and reinvested in new bonds, surplus would increase through significant realized gains. The increased surplus would inappropriately reflect increased financial strength that is illusory, due to a now lower yielding portfolio, as there would be no change to the income needed to support the liabilities.

Likewise, if a company sold all bonds in an increasing interest rate environment (e.g., from 2% to 4%), and reinvested in new bonds, surplus would decrease through significant realized losses. The decreased surplus would inappropriately reflect decreased financial strength that is similarly illusory due to the reinvestment at higher yields relative to when the bonds were originally purchased.

A net negative IMR is currently disallowed in statutory accounting. This handling is contrary to its original intent which recognized that interest related gains and losses are both transitory without any true economic substance since the proceeds would be reinvested at offsetting lower or higher interest rates, respectively. See attachment I to this letter that illustrates the financially consistent

treatment of assets, liabilities, and income and how IMR is needed to achieve that objective for both realized gains and losses.

That IMR should conceptually apply to both realized gains and losses was recognized by the NAIC during and after IMR development. The below is a quote from a 2002 report by the NAIC AVR/IMR Working Group to the E-Committee:

> *"The basic rationale for the IMR would conclude that neither a maximum nor a minimum is appropriate. If the liability values are based on the assumption that the assets were purchased at about the same time as the liabilities were established, then there should be no bounds to the reserve which corrects for departures from that assumption;* ***if a company has to set up a large reserve because of trading gains, it is in no worse position that if it had held the original assets. As for negative values of the IMR, the same rationale applies.*** **However, the concept of a negative reserve in the aggregate has not been adopted."**

While realized losses can offset realized gains in IMR, the IMR instructions require the disallowance of a net negative IMR balance (e.g., as noted in the last sentence of the aforementioned quote). See attachment II to this letter, which includes the pertinent IMR instructions where negative IMR balances are currently disallowed and in need of amendment.

When IMR was originally developed, it was intended to achieve its purpose in both a declining and rising interest rate environment. The originally adopted disallowed status of a negative IMR was expected to be addressed in subsequent years. However, over time with the persistent declining interest rates, the issue lost urgency since a negative IMR would not have been a significant issue for any company. The NAIC AVR/IMR Working Group ultimately disbanded without ever addressing this longstanding item on their agenda.

With a rising interest rate environment, it is important that the allowance of a negative IMR be addressed to fulfill its original purpose. In general, rising interest rates are favorable to the financial health of the insurance industry as well as for policyowners.

Without a change, the rising interest rate environment will give the inappropriate perception of decreased financial strength through lower surplus and risk-based capital and worse, create incentives for insurance companies to take action, or not take actions, to prevent uneconomic surplus impacts where the actions (or lack thereof) themselves may be economically detrimental.

Symmetrical treatment of a negative IMR (i.e., the allowance of a negative IMR balance) would appropriately not change surplus as a sale and reinvestment would not affect the underlying insurance company liquidity, solvency, or claims paying ability, just like with a positive IMR. See attachment III to this letter that illustrates that the sale of a fixed income investment, and reinvestment in a new fixed income investment, has no bearing on a life insurance company's liquidity, solvency, or claims paying ability.

As it was initially recognized by the NAIC that IMR should apply to both gains and losses, adequate safeguards were already built into the IMR instructions for asset adequacy, risk-based capital, and troubled companies.

Negative IMR – Reserve Adequacy and Risk-Based Capital

When IMR was developed, it was anticipated that a negative IMR balance would be reflected in asset adequacy analysis. This inclusion ensures that the assets, with the appropriate allocation from the IMR (whether negative or positive), would be adequate to fund future benefit obligations and related expenses of the company.

From the standpoint of reserve adequacy, the inclusion of a negative IMR balance appropriately reduces the investment income in asset adequacy testing. Without the inclusion of negative IMR, reserve inadequacies would potentially not be recognized.

Further, with the inclusion of a negative IMR balance in asset adequacy testing, the disallowance of a negative IMR can result in double counting of losses (i.e., through the disallowance on the balance sheet and the potential AAT-related reserve deficiency). The Actuarial Opinion that covers asset adequacy analysis requires the appropriate assessment of negative IMR in its analysis.

If a negative IMR balance is used in the asset adequacy analysis, its allowance is appropriate. Likewise, if only a portion of a company's negative IMR balance is reflected in the asset adequacy analysis, only the allowance for that portion of the negative IMR balance reflected is appropriate. If a negative IMR balance is disallowed, it would be inappropriate to include in asset adequacy analysis. It is imperative there is symmetry between both reserving and accounting considerations, and there is already precedent in the asset adequacy analyses for inclusion of IMR.

Below are the current references to IMR in the valuation manual and risk-based capital calculations.

Regulation	Use	IMR references
Actuarial Opinion and Memorandum Regulation (VM-30)	Asset adequacy analysis for annual reserve opinion	An appropriate allocation of assets in the amount of the IMR, whether positive or negative, shall be used in any asset adequacy analysis.
Life principle-based reserves (VM-20)	Calculation of deterministic reserve	Calculate the deterministic reserve equal to the actuarial present value of benefits, expenses, and related amounts less the actuarial present value of premiums and related amounts, less the positive or negative pre-tax IMR balance at the valuation date allocated to the group of one or more policies being modeled
Life principle-based reserves (VM-20)	Calculation of stochastic reserve	Add the CTE amount (D) plus any additional amount (E) less the positive or negative pre-tax IMR balance allocated to the group of one or more policies being modeled
Variable annuities principle-based reserves (VM-21)	Reserving for variable annuities	The IMR shall be handled consistently with the treatment in the company's cash-flow testing, and the amounts should be adjusted to a pre-tax basis.
C3 Phase 1 (Interest rate risk capital)	RBC for fixed annuities and single premium life	IMR assets should be used for C3 modeling.

Additional IMR Safeguards

The IMR instructions do provide additional safeguards in situations where it would be appropriate to recognize interest-rate related gains and losses immediately rather than be included in the IMR.

They were established to prevent situations where the liability the IMR supports, no longer exists. Examples noted in the annual statement instructions include:

- Major book-value withdrawals or increases in policy loans occurring at a time of elevated interest rates.

- Major book value withdrawals resulting from a "run on the bank" due to adverse publicity.

As a result, the IMR instructions include an IMR Exclusion whereby all gains or losses which arise from the sale of investments related to "Excess Withdrawal Activity" are to be excluded from IMR and reflected in net income. In short, Excess Withdrawal Activity is defined as 150% of the product of the lower of the withdrawal rate in the preceding or in the next preceding year calendar year times the withdrawal reserves at the beginning of the year.

Summary

With a rising interest rate environment, it is important that the allowance of a negative IMR be addressed to fulfill its original purpose. In general, rising interest rates are favorable to the financial health of the insurance industry as well as for policyowners. Without a change, the rising interest rate environment will give the inappropriate perception of decreased financial strength through lower surplus and risk-based capital.

The inability to recognize negative IMR could also impact the rating agency view of the industry, or worse, incentivize companies to avoid prudent investment transactions that are necessary to avoid mismatches between assets and liabilities. Furthermore, there are adequate safeguards in place to ensure that allowing a negative IMR does not cause any unrecognized reserve or capital inadequacies or any overstatement of claims paying ability.

Current statutory accounting guidance creates two equally objectionable alternatives for insurers and their policyowners. Following the current statutory guidance will improperly reflect financial strength through understating surplus, so additional surplus may need to be retained. Alternatively, one could take steps to manage the current situation by limiting trading of fixed income investments and related hedging programs, which would diminish significant economic value for policyowners, as well as create a mismatch between assets and liabilities.

Both scenarios encourage short-term non-economic activity not in the best long-term interest of the insurance company's financial health or its policyowners. For insurers with diminishing IMR balances due to the rapid increase in interest rates, this dilemma is either here or fast approaching and can only be resolved now with certainty of the appropriate treatment of IMR by the NAIC.

The ACLI looks forward to urgently working with the NAIC toward fulfilling the original intent of IMR. It is imperative that insurers receive relief for year-end 2022.

If you have any questions regarding this letter, please do not hesitate to contact us.

Sincerely,

Mike Monahan
Senior Director, Accounting Policy

Paul Graham
Senior Vice President, Chief Actuary

Simplified Example – Need for Reporting Assets, Liabilities, and Income on a Consistent Basis:

- This example shows the appropriate interrelationship of IMR on assets, reserve liabilities, and income.
- Assume a bond is held with the following characteristics:
  - Par Value: $1,000
  - Coupon: 3%
  - Term-to-maturity: 10 years
- Assume the bond is then sold at "time zero" and the proceeds are immediately reinvested in a bond with the same characteristics (e.g., term-to maturity, credit quality, coupon equivalent to market rate, etc.).
- Assume a simplified example with no existing IMR balance, where the bond supports a fixed insurance liability with the same duration as the original bond, as well as a present value of $1,000.

Table 1: Market Interest Rate Scenario

	Same	Lower	Higher
Market interest rate	3%	2%	4%
Bond's market value	$1,000	$1,090	$919
Realized gain/(loss) if sold	$0	$90	($81)*

Realized gain/(loss) deferred to balance sheet IMR and amortized into income over remaining life of bond sold (i.e., 10 years).

Table 2: Statutory Investment Income

IMR amortization	$0	$9	($8)
Interest income on new bond	$30	$21	$38
Total annual stat income	$30	$30	$30

On average, future income is approximately the same in each interest rate scenario as the IMR gets reduced through amortization to income.

Table 3: Statutory Balance Sheet

Balance Sheet Bonds	$1,000	$1,090	$919
IMR	$0	($90)	$0*
Stat assets net of IMR	$1,000	$1,000	$919*
Reserves	$1,000	$1,000	$1,000
Surplus	$0	$0	($81)*

Even though the sale of the bond (and subsequent reinvestment) is non-economic, and the same income is being produced to support the liability, a negative surplus position makes it appear there is now a deficiency. Allowing the negative IMR appropriately would show no surplus impact, as is shown when a gain occurs, as there is no change in reported reserve liabilities. Appropriately consistent financial results require the allowance of negative IMR

***The negative IMR balance is currently disallowed and directly reduces surplus. This treatment is not supported by theoretical rationale and gives a distorted view of solvency.**

Pertinent Annual Statement Instructions

Line 6 – Reserve as of December 31, Current Year

Record any positive or allowable negative balance in the liability line captioned "Interest Maintenance Reserve" on Page 3, Line 9.4 of the General Account Statement and Line 3 of the Separate Accounts Statement. A negative IMR balance may be recorded as a negative liability in either the General Account or the Separate Accounts Statement of a company only to the extent that it is covered or offset by a positive IMR liability in the other statement.

If there is any disallowed negative IMR balance in the General Account Statement, include the change in the disallowed portion in Page 4, Line 41 so that the change will be appropriately charged or credited to the Capital and Surplus Account on Page 4. If there is any disallowed negative IMR balance in the Separate Accounts Statement, determine the change in the disallowed portion (prior year less current year disallowed portions), and make a direct charge or credit to the surplus account for the "Change in Disallowed Interest Maintenance Reserve" in the write-in line, in the Surplus Account on Page 4 of the Separate Accounts Statement.

The following information is presented to assist in determining the proper accounting:

General Account IMR Balance	Separate Account IMR Balance	Net IMR Balance
Positive	Positive	Positive (see rule a)
Negative	Negative	Negative (see rule b)
Positive	Negative	Positive (see rule c)
Positive	Negative	Negative (see rule d)
Negative	Positive	Positive (see rule e)
Negative	Positive	Negative (see rule f)

Rules:

a. If both balances are positive, then report each as aa liability in its respective statement.

b. If both balances are negative, then no portion of the negative balances is allowable as a negative liability in either statement. Report a zero for the IMR liability in each statement and follow the above instructions for handling disallowed negative IMR balances in each statement.

c. If the general account balance is positive, the separate accounts balance is negative and the combined net balance is positive, then all of the negative IMR balance is allowable as a negative liability in the Separate Accounts Statement.

d. If the general account balance is positive, the separate account balance is negative, and the combined net balance is negative, then the negative amount not covered by the positive amount is not allowable. Report only the allowable portion as a negative liability in the Separate Accounts Statement and follow the above instructions for handling the disallowed portion of negative IMR balances in the Separate Accounts Statement.

e. If the general account balance is negative, the separate account balance is positive, and the combined net balance is positive, then all of the negative IMR balance is allowable as a negative liability in the General Account Statement.

f. If the general account balance is negative, the separate account balance is positive, and the combined net balance is negative, then the negative amount not covered by the positive amount is not allowable. Report only the allowable portion as a negative liability in the General Account Statement and follow the above instructions for handling the disallowed portion of negative IMR balances in the General Account Statement.

IMR Illustration – Liquidity, Solvency and Claims Paying Ability

Essentially, a negative IMR balance from an individual trade represents the present value of the future positive interest rate differential, from the new investment compared to the old investment, that puts one in the same economic position, when compared to before the trade, including total liquid assets available to pay claims.

This phenomenon can be illustrated in the following table where a 10-year bond is sold, one year after purchase, and immediately reinvested in another 10-year bond with equivalent credit quality in an interest rate environment where market interest rates increased from 2% to 4% in the intervening year.

	Coupon Rate of Bond	Market Interest Rate @ Purchase	Par Value of Bond	Fair Value @ Purchase	Fair Value @ Time of Sale	Loss on Sale	Claims Paying Liquidity
Old Bond	2%	2%	100	100	85.13	14.87	85.13
New Bond	4%	4%	85.13	85.13	85.13	N/A	85.13

The short-term acceleration of negative IMR to surplus (e.g., its disallowance) is strictly a timing issue and not a true loss of financial strength or claims paying liquidity, but it does present a temporary and inappropriate optics issue in surplus/financial strength until the IMR is fully amortized.

This phenomenon can further be illustrated by comparing two separate hypothetical companies. Assume Company A and B both have the exact same balance sheets. Then assume Company A keeps the old bond and Company B affects the trade mentioned above.

With the disallowance of a negative IMR balance, Company B now has a balance sheet that shows a relative decline of financial strength of $14.87. This weakened balance sheet contrasts with both the principle behind the development of IMR, the relative actual economic financial strength, and claims paying ability of the two entities.

There is no difference in balance sheet economics of the two entities. The negative IMR balance for Company B essentially represents the difference between cost and fair value of the investment sold, that is already embedded on Company A's balance sheet based on the existing interest rate environment. The negative IMR balance should be recognized as there is no change in economics pre and post trade (or in this instance between Company A and Company B) which is consistent with the overall principle behind IMR.

Some actuaries test the option risk in assets (e.g., calls) by assuming an immediate drop in the discount rate used in the GPV. The drop test is often set as severe as needed to represent a drop in earned rate that would occur if all options were exercised.

Q22. The AOMR states that the interest maintenance reserve (IMR) should be used in asset adequacy analysis. Why?

The IMR is part of the total reported statutory reserves. The IMR typically defers recognition of the portion of realized capital gains and losses resulting from changes in the general level of interest rates. These gains and losses are amortized into investment income over the expected remaining life of the investments sold, rather than being recognized immediately. This amortization is after tax.

The purpose of the IMR usually is to maintain the original matching between assets and liabilities that might be weakened by the sale of an asset. Originally, it was anticipated that the IMR would be allowed to become negative, as long as the asset adequacy analysis showed that the total statutory reserves, including the negative IMR, were sufficient to cover the liabilities. However, a negative IMR is not an admitted asset in the annual statement. So, some actuaries do not reflect a negative value of IMR in the liabilities used for asset adequacy analysis.

In the 2012 survey of appointed actuaries, more than 80 percent of the respondents indicated they include the IMR in their testing. Some actuaries use a starting IMR of zero if IMR is negative. Other actuaries use negative IMR to adjust starting assets and therefore model future lower asset yields than if zero IMR were assumed. Half of the respondents who indicated they used IMR in testing also indicated they lower assets by the absolute value of a negative IMR balance; the other half indicated they use a value of zero for the starting IMR if it is negative at the beginning of the projection period. There is no prohibition regarding the use of negative IMR within asset adequacy analysis. So, a number of actuaries allow the IMR to fall below zero within the testing period. About 60 percent of actuaries responding to the survey indicated they do not have to deal with a negative IMR.

Q23. How does the actuary determine which portion of the IMR can be used to support certain products? How is the portion of the IMR used?

If the actuary allocates the assets and IMR by line, then one possible approach is line of business-level inclusion of starting assets in the amount of the unamortized portion of the IMR relating to those assets that were owned by the line prior to being sold. Another possible approach is the allocation of company-level IMR proportionately to starting assets. An advantage of this second approach is that it is generally simpler, while a disadvantage is that longer liabilities probably have longer assets, which usually produce higher capital gains when sold, after a given drop in interest rates, than shorter assets do,

Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force
Amendment Proposal Form*

1. Identify yourself, your affiliation and a very brief description (title) of the issue.

   Identification:
   Rachel Hemphill, FSA, FCAS, MAAA, Ph.D.

   Title of the Issue:
   Clarifying guidance for allocation of negative IMR.

2. Identify the document, including the date if the document is "released for comment," and the location in the document where the amendment is proposed:

   VM- 20 Section 7.D.7, VM-30 Section 3.B.5

   January 1, 2023 NAIC Valuation Manual

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted or changed by providing a red-line (turn on "track changes" in Word®) version of the verbiage. (You may do this through an attachment.)

   See attached.

4. State the reason for the proposed amendment? (You may do this through an attachment.)

   Clarify allocation of negative IMR for VM-20 and VM-30; in particular, non-admitted IMR is excluded. Note that VM-21 Section 4.A.7 currently requires a treatment consistent with VM-30, and so additional guidance is not needed for VM-21.

* This form is not intended for minor corrections, such as formatting, grammar, cross–references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
05/22/23	SO		
Notes: APF 2023-08			

VM-20 7.D.7

7. Under Section 7.D.1, any PIMR balance allocated to the group of one or more policies being modeled at the projection start date is included when determining the amount of starting assets and is then subtracted out, under Section 4 and Section 5, as the final step in calculating the modeled reserves. The determination of the PIMR allocation is subject to the following:

a. The amount of PIMR allocable to each model segment is the approximate statutory interest maintenance reserve liability that would have developed for the model segment, assuming applicable capital gains taxes are excluded. The allocable PIMR may be either positive or negative.
b. In performing the allocation to each model segment, ~~the company shall use a reasonable approach to allocate~~ any portion of the total company IMR balance that is ~~disallowable~~ not admitted under statutory accounting procedures ~~(i.e., when the total company balance is an asset rather than a liability).~~shall first be removed. The company shall use a reasonable approach to allocate the total company balance, after removing any non-admitted portion thereof, between PBR and non-PBR business and then allocate the PBR portion among model segments in an equitable fashion.
c. The company may use a simplified approach to allocate the PIMR, if the impact of the PIMR on the minimum reserve is minimal.

VM-30 Section 3.B.5

5. An appropriate allocation of assets in the amount of the IMR, whether positive or negative, shall be used in any asset adequacy analysis. In performing the allocation, any portion of the total company IMR balance that is not admitted under statutory accounting procedures shall first be removed. Analysis of risks regarding asset default may include an appropriate allocation of assets supporting the asset valuation reserve; these AVR assets may not be applied for any other risks with respect to reserve adequacy. Analysis of these and other risks may include assets supporting other mandatory or voluntary reserves available to the extent not used for risk analysis and reserve support.

In addition to providing general feedback on the IMR Template and Instructions, commenters are requested to address the following questions:

1. Does there need to be any disclosure about C3 Phase 1 and C3 Phase 2? If responding affirmatively, please suggest specific disclosures.
2. Are there any summary tables that may be useful standard documentation for the free-form responses on excess withdrawals or bond sales?

The template contained in this spreadsheet is part of the company's PBR Actuarial Report and/or Actuarial Memorandum. The PBR Actuarial Report and Actuarial Memorandum are considered to be confidential information under Section 14A of the Standard Valuation Law (Model #820), and may only be disclosed by a commissioner pursuant to Section 14B of Model #820.

General Instructions for Completing Optional IMR Template
1) Instructions for specific fields are provided on tab "Instructions Template IMR". Please review all instructions. Then complete the template in this workbook.
2) Fields that must be completed are shaded in blue.
3) Do not add, remove, or move rows or columns.
4) Use the Comments column if further explanation is needed.
5) This template is part of the PBR Actuarial Report and/or Actuarial Memorandum. Although this workbook is formatted for printing, templates must be provided in Excel format.

Instructions for Completing Optional AOM and PBR Actuarial Report Template IMR
Supplemental IMR Reporting

IMR and Relevant Annual Statement Reporting

Column	Instructions
1	**General Account IMR** "Interest Maintenance Reserve" on Annual Statement Page 3, Line 9.4 of the General Account Statement.
2	**Separate Account IMR** "Interest Maintenance Reserve" on Annual Statement Page 3, Line 3 of the Separate Accounts Statement.
3	**RBC** RBC ratio, where the denominator is the authorized control level. Reporting entities with a 300% or lower RBC are not permitted to admit net negative (disallowed) IMR.
4	**General Account Capital and Surplus** General account capital and surplus, as required to be shown on the statutory balance sheet of the reporting entity for its most recently filed statement with the domiciliary state commissioner adjusted to exclude any net positive goodwill, EDP equipment and operating system software, net deferred tax assets and admitted net negative IMR. This amount should reconcile to the note disclosure for IMR included with the annual statement.
5	**Admitted negative (disallowed) IMR** Reported as a write-in to miscellaneous other-than-invested asset, named as "Disallowed IMR" and included in special surplus. Should be entered as a positive amount. This amount should reconcile to the note disclosure for IMR included with the annual statement.
6	**Comments** Any additional commentary needed to explain the entries in Columns 1-5.

Automatic Verifications

RBC Flag
If the RBC is under 300%, it is expected that the Admitted negative (disallowed) IMR will be 0. Provide an explanation if this is not the case.

Capital and Surplus Flag
The Admitted negative (disallowed) IMR is limited to 5% of General Account Capital and Surplus. Provide an explanation if this is not the case.

IMR and Relevant 9/30 Statement Reporting (to be completed if 9/30 data is used for AAT)

Repeats Columns 1-6 above, but as of 9/30. Automatic verifications are repeated for the 9/30 table. This table only needs to be completed if 9/30 data is used for AAT.

Reflection of IMR in Asset Adequacy Testing and Principle-Based Reserving

Column	Instructions
1	**Reporting Basis** All potential reporting bases for the template are listed. Columns 2-7 should be completed for all rows for which the company has business.
2	**As of Quarter** Enter Q3 for 9/30 data or Q4 for 12/31 data.
3	**Amount of IMR Allocated** Enter the total amount of IMR that is allocated and included in starting assets (after being adjusted to a pre-tax basis for PBR) for the given reporting basis. Report IMR, not PIMR.
4	**Amount of negative (disallowed) IMR Allocated** Enter the amount of net negative (disallowed) IMR that is allocated and included in starting assets (after being adjusted to a pre-tax basis for PBR) for the given reporting basis. Should be entered as a positive amount. Report IMR, not PIMR.
5	**IMR Allocation Basis** Enter the allocation basis used to allocate IMR for AAT or PBR. For example, this may be proportional based on starting assets or may be specific to the assets included in the reserving or testing.
6	**Included in Starting Assets? (Y/N)** Verify whether the allocated admitted net negative (disallowed) IMR was reflected in the starting assets, thereby reducing the amount of starting assets.
7	**Allocated IMR generates future income? (Y/N)** Verify that the allocated admitted net negative (disallowed) IMR included in the starting assets does not generate future income.
8	**Comments** Any additional commentary needed to explain the entries in Columns 1-7. In particular, if reserves are not modeled, and so allocated IMR is not reflected via starting assets, explain how IMR is reflected in the calculation. For the AAT line, if a book value projection was used to evaluate reserve adequacy, disclose whether ending surplus was adjusted for any remaining negative IMR (i.e., reduced surplus).

Automatic Verification

AAT IMR Flag
If the amount of negative (disallowed) IMR reflected in AAT is less than the amount of admitted negative (disallowed) IMR, provide an explanation why the admitted IMR is not fully reflected in AAT.

Excess Withdrawals

SAPWG's referral to LATF included a request with assistance "Ensuring that excessive withdrawal considerations are consistent with actual data." Input is appreciated on how LATF could best respond to this portion of the referral. To date, feedback has suggested that A/E analysis on withdrawals would be an appropriate actuarial item responsive to this request.

Bond Sales

SAPWG has proposed a restriction on the types of sales that may generate admitted net negative (disallowed) IMR. At this point, it is unclear what responsive information could be requested to verify this restriction. ACLI has suggested that this item is more suited for a CFO attestation and should not be included with the other actuarial items. Input is requested on whether this item should be included in this template and whether there is information that could be provided by actuaries to support this item or if an alternate verification should be suggested to SAPWG.

Optional AOM and PBR Actuarial Report Template IMR
Supplemental IMR Reporting

(All dollar amounts in thousands.)

Company Name:	
NAIC Company Code:	
Valuation Year:	

IMR and Relevant Annual Statement Reporting

1 General Account IMR	2 Separate Account IMR	3 RBC	4 General Account Capital and Surplus	5 Admitted negative (disallowed) IMR	6 Comments

RBC Flag:	Ok	
Capital and Surplus Flag:	Ok	

IMR and Relevant 9/30 Statement Reporting (to be completed if 9/30 data is used for AAT)

1 General Account IMR	2 Separate Account IMR	3 RBC	4 General Account Capital and Surplus	5 Admitted negative (disallowed) IMR	6 Comments

RBC Flag:	Ok	
Capital and Surplus Flag:	Ok	

Reflection of IMR in Asset Adequacy Testing and Principle-Based Reserving

1 Reporting Basis	2 As of Quarter	3 Amount of IMR Allocated	4 Amount of negative (disallowed) IMR Allocated	5 IMR Allocation Basis	6 Included in Starting Assets? (Y/N)	7 Allocated IMR generates future income? (Y/N)	8 Comments
VM-30 (AAT)							
VM-21							
VM-20: Term Reserving Category							
VM-20: ULSG Reserving Category							
VM-20: All Other Reserving Category							

Automatic Verification

AAT IMR Flag:	Ok	

Admitted negative (disallowed) IMR should not reflect asset sales due to excess withdrawals, either historical excess withdrawals or anticipated future excess withdrawals (where the company anticipates future withdrawals that are "excess" as defined by IMR instructions - above 150% of the prior two years). First, discuss and support with Actual to Expected analysis the level of historical excess withdrawals and anticipated future excess withdrawals. This discussion may be supplemented by other analysis and A/E's, such as for lapse data. Second, please confirm and support that any admitted net negative IMR is not due to asset sales related to excess withdrawals. Note that if the company cannot provide strong support, then the Admitted Negative (disallowed) IMR shall be 0.

(Enter summary here, and attach additional documentation as necessary.)

Admitted negative (disallowed) IMR is limited to IMR generated from losses incurred from the sale of bonds, or other qualifying fixed income investments, that were reported at amortized cost prior to the sale, and for which the proceeds of the sale were immediately used to acquire bonds, or other qualifying fixed income investments, that will be reported at amortized cost. Please confirm and support that any admitted net negative IMR is generated by losses that satisfy that requirement. Note that if the company cannot provide strong support, then the Admitted Negative (disallowed) IMR shall be 0.

(Enter summary here, and attach additional documentation as necessary.)

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July 28, 2023

Rachel Hemphill
Chair, NAIC Life Actuarial (A) Task Force (LATF)

Craig Chupp
Vice-Chair, NAIC Life Actuarial (A) Task Force (LATF)

Re: LATF Interest Maintenance Reserve (IMR) Template

Dear Chair Hemphill,

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the IMR Template which was exposed by LATF during their meeting on June 15, 2023, and we are especially appreciative of the changes to the template made by regulators to date. ACLI members have a few questions and suggested edits for consideration that would go a long way towards making the Template as meaningful and effective as possible for both industry and regulators alike.

The template will need to be updated to be consistent with the work Statutory Accounting Principles (E) Working Group (SAPWG) is doing on this topic. The July 5th SAPWG exposure had significant updates. Notably, the 5% limit has increased to 10% (with adjustments), which will need to be reflected on the "Instructions Template IMR" and "Template IMR" tabs. Additionally, "Bond Sales" (rows 69-70) on the "Instructions Template IMR" and "Template IMR" tabs may no longer be necessary given the most recent SAPWG exposure. We would also request that LATF adjust the template (particularly the free response questions) to remove any data and questions that are already being captured by SAPWG (e.g., the attestation requirements).

General Comments/Confidentiality Tab:

- The template combines concepts from both PBR and the Actuarial Opinion and Memorandum (AOM).
    - The parts relevant for PBR would be in the purview of the Qualified Actuary, but the PBR Report is not due until 4/1.
    - Further, the information requested in lines 45 and 60 is not currently the responsibility of the Appointed Actuary and should be collected elsewhere. It does not seem appropriate for this piece to be part of the AOM. Further, it does not seem appropriate to include this information before the audited financial statements are completed.
    - If the template were considered part of the AOM, how is it referenced? AG 53 was attached to the memorandum as an appendix and was separately provided to domestic regulators as a request. To work similarly to that process the template could be due at or the same time the Regulatory Asset Adequacy Issue Summary (RAAIS) is due.
- ACLI requests that IMR template submissions not be due on 2/28 and are deferred until after the RAAIS and PBR Report are submitted.
- Is it the intent that the file is on record at the company and is available upon request?

Instructions Template IMR Tab:

- The instructions reference a "note disclosure for IMR." We request clarification on what this wording entails as some members have expressed confusion. There is no IMR Note or IMR Disclosure but there is a form for calculating IMR; is this last item what regulators intended companies to use?

Template IMR Tab:

- Row 16: For column 3, RBC, consider including reference to the following annual statement items for the RBC ratio (= TAC/Authorized Control Level RBC)
    - TAC: Five-Year Historical Data, Line 30, Column 1
    - Authorized Control Level RBC: Five-Year Historical Data, Line 31, Column 1
- Row 16: For column 4, General Account Capital and Surplus,
    - Consider including references to the location in the annual statement for each item in the adjusted amount:
        - General Account Capital and Surplus: Page 3, Line 38
        - Net Positive Goodwill: <location>
        - EDP Equipment and operating system software: Page 2, Line 20, Column 3
        - Net deferred tax assets: Page 2, Line 18.2, Column 3
        - Admitted net negative IMR: <location>
- For column 5, Admitted negative (disallowed) IMR, how does this item differ, if at all, from "admitted net negative IMR" referenced in column 4, General Account Capital and Surplus?
- For column 7, Allocated IMR generates future income? (Y/N)?, consider re-stating the instructions to read as follows: Does the allocated admitted net negative (disallowed) IMR included in the starting assets generate future income? The current language is open to interpretation.
- The following cells do not allow for a zero entry:

  - Cell E16 – Admitted negative (disallowed) IMR in Annual Statement
  - Cell E26 – Admitted negative (disallowed) IMR in 9/30 Quarterly Statement
- The following cells do not allow for a free-form text entry:
  - Cell E35 (IMR Allocation Basis – VM-30)
  - Cell E36 (IMR Allocation Basis – VM-21)
  - Cell E37 (IMR Allocation Basis – VM-20 Term)
  - Cell E38 (IMR Allocation Basis – VM-20 ULSG)
  - Cell E39 (IMR Allocation Basis – VM-20 All Other)

Thank you once again for your consideration of our comments and we look forward to discussing the IMR Template at a future session of LATF.

Sincerely,

cc: Scott O'Neal, NAIC

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July 21, 2023

Rachel Hemphill
Chair, NAIC Life Actuarial (A) Task Force (LATF)

Re: APF 2023-08 and the NAIC Staff Memo on Interest Maintenance Reserve (IMR)

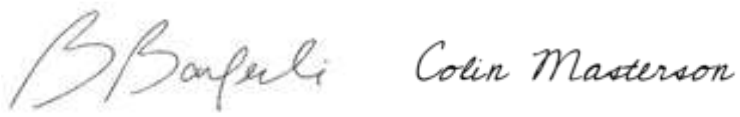
Dear Chair Hemphill:

The American Council of Life Insurers (ACLI) appreciates the opportunity to submit comments on the two LATF exposures from the June 1st meeting related to IMR: APF 2023-08 and the NAIC Staff Memorandum on Allocating Negative IMR (PIMR) In VM-20, VM-21, and VM-30. Overall, ACLI has no objections to the language and proposals presented in the exposures.

ACLI would like to clarify whether the regulators' intention is to require that all admitted negative IMR be fully allocated in PBR and AAT, including admitted negative IMR arising from assets in a segmented surplus portfolio. ACLI notes that positive IMR amounts arising from assets in a segmented surplus portfolio are not allocated in PBR and AAT.

Thank you very much for the consideration of our request for clarification and we look forward to further discussion on these exposures at a future LATF session.

Sincerely,



cc: Scott O'Neal, NAIC

Agenda Item 15

Other Matters
(No Materials)