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Session 01PD: Statutory Life and Annuity Issues

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# Statutory Life and Annuity Issues

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October 18, 2017



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# Life and Annuity Valuation

- Statutory Reserves
- Risk-Based Capital (RBC) and Solvency
- Actuarial Practice
- Appointed Actuary and Opinion Topics



# Statutory Reserve



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# Update on Life PBR Adoption

- Valuation Manual (VM) became operative on 1/1/2017
- At this point, only New York, Massachusetts, Alaska and D.C. have not adopted.
- New York plans to adopt its own version of the VM
  - Won't likely be effective until 2019
  - Expect NY will add a new floor (in addition to the NPR, DR and SR)
- VM-20 only applies to new business issued 1/1/2017 and later
  - Pre-need, industrial, and credit life are excluded
  - Three-year transition is permitted on all or a portion of new issues
  - Companywide exemption is optional if company meets criteria

[www.naic.org/documents/cmte\\_a\\_latf\\_related\\_val\\_adopted\\_160829\\_with\\_changes.pdf](http://www.naic.org/documents/cmte_a_latf_related_val_adopted_160829_with_changes.pdf)



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# Summary of Recent VM-20 Changes

- Most changes are non-substantive (i.e., add clarity, correct wrong references, etc.)
- Notable changes include:
  - Companywide Exemption
  - Determination of current asset credit spreads
    - Eliminated exposure period before adoption
    - Now determined using a point-in-time at valuation date (not daily average over the preceding quarter)
  - Clarified the treatment of policy loans and separate account assets in starting assets
  - Changes to the executive summary in VM-31



# Companywide Exemption

- ❑ Removal of the RBC 450% requirement for companies with less than \$50 million of ordinary life premium
- ❑ Greater commissioner discretion to allow the exemption to continue if passed one year but not the next solely due to the 450% RBC requirement
- ❑ Removal of preneed from the ordinary life premium volume.
- ❑ Removal of any reserve amount from the ordinary life premium volume due to reinsurance assumed where the reserve transferred was reported in Exhibit 1 as ordinary life premium.
- ❑ Non-material ULSG exemption criteria clarified

[www.naic.org/cmte\\_a\\_latf.htm](http://www.naic.org/cmte_a_latf.htm)



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# VM-20 Revisions under Discussion

- Aggregation of mortality segments for determining credibility
- Treatment of term riders in reserve calculation
- Reflecting impact of accelerated underwriting programs
- Clarification of VM definitions, and moving all definitions to a single location (Section I of the VM)
- Reinsurance, including allocation of reinsurance reserve credits by treaty
- Treatment of VUL and IUL products
- Refinements in VM-31 requirements





# VM-31 PBR Report Changes

- PBR reporting format specified
- Changes for 2018 include making clear what information must be included and what order the items must be presented in the report, e.g.,

## II. PBR LIFE REPORT

### 1. SUMMARY OF VALUATION ASSUMPTIONS

### 2. CASH FLOW MODEL

#### a. MODELING SYSTEM USED

#### b. MODEL SEGMENTS

#### c. GROUPING FOR DETERMINISTIC RESERVES

#### d. STOCHASTIC GROUPING

- More substantive changes may be made for the 2019 VM



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# PBR Governance Work Group

- Academy work group looking at governance under PBR and various related issues
- Developed:
  - Model Governance Checklist (Non-exhaustive checklist is offered as a resource for practicing actuaries and others involved in actuarial model governance)
  - Model Governance Practice Note (Q&A on PBR Modeling)
  - Available at

[www.actuary.org/content/pbr-practice](http://www.actuary.org/content/pbr-practice)



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# PBR Governance Work Group (cont.)

- Runs PBR Boot Camps (Sept. 11-13 will be a regulatory-focused Boot Camp)
- Working on PBR Assumption Resource Manual
  - Ben Slutsker, chairperson
  - Aims at developing a step-by-step resource manual on setting/updating PBR assumptions/governance
  - Volunteers welcome!



# Preparedness for PBR

## □ NAIC Pilot Project

- Covers items such as VM-31 reports, annual statement PBR supplement, and general procedures associated with PBR
- 11 companies and their regulators participated

[naic.org/documents/cmte\\_ex\\_pbr\\_implementation\\_tf\\_related\\_company\\_pilot\\_project\\_report.doc](http://naic.org/documents/cmte_ex_pbr_implementation_tf_related_company_pilot_project_report.doc)

## □ Other Efforts

- PBR ASOP in draft from
- VM-20 Practice Note released



# Preparedness for PBR (cont.)

- NAIC PBR Implementation Task Force
  - Coordinate PBR initiatives with NAIC technical groups
- NAIC PBR Review Working Group
  - PBR Blanks Reporting Subgroup
  - PBR Review Procedures Subgroup
  - NAIC Actuarial Staff and Modeling Software
  - PBR Survey
  - PBR Pilot Project
  - PBR Training for State Regulators
- NAIC Valuation Analysis Working Group



# AG 48 and Reinsurance Model Reg

- In January 2016, the NAIC adopted amendments to its Model 785 – Credit for Reinsurance Model Law
- It gives the insurance commissioners authority to issue regulations pertaining to XXX/AXXX types of life insurance policies, variable annuities, long-term-care, and other products
- Intent is to ultimately replace AG 48 with a model regulation that would need to be approved by each state



# AG 48 and Reinsurance Model Reg (cont.)

- In December of 2016 the NAIC adopted Model Regulation 787 (MR 787) that implements requirements similar to AG48
  - MR 787 ensures that funds consisting of Primary Security and Other Security are held in appropriate amounts to support the ceded reserves
  - State-by-state adoption is in process
- In April 2017, the NAIC exposed a proposal that the revised Model Law 785 and new MR 787 be adopted by the NAIC as new accreditation standards, with an effective date of 1/1/2020

[www.naic.org/documents/cmte\\_e\\_reinsurance\\_exposure\\_accreditation\\_standard.pdf](http://www.naic.org/documents/cmte_e_reinsurance_exposure_accreditation_standard.pdf)



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# New 2017 CSO Table

- 2015 VBT and 2017 CSO effective 1/1/17
  - Underwriting Relative Risk (RR) tables also available
- Can be used for nonforfeiture starting 1/1/17
  - States and IIPRC are accepting new policy forms using this table
- Developed for use with PBR, can be used for other products
- Three-year grade-in permitted
- Can be used for asset adequacy testing for 2016

[www.soa.org/Research/Experience-Study/Ind-Life/Valuation/2017-cso-tables.aspx](http://www.soa.org/Research/Experience-Study/Ind-Life/Valuation/2017-cso-tables.aspx)



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# Guaranteed Issue, Pre-Need and Simplified Mortality Tables

- Mary Bahna-Nolan, chairperson Academy/SOA group
- Tables being worked on: expectation that it will be effective in 2018
- Guaranteed issue: new composite (ultimate) table which is exposed for comment through September 15
- Pre-Need: recommend continue using 1980 CSO
- True Simplified issue: new composite (ultimate) table which is exposed for comment through September 15
- Other simplified issue/accelerated underwriting: develop formulas to use
- Can use for asset adequacy testing in 2017

[www.naic.org/meetings1708/cmte\\_a\\_latf\\_2017\\_summer\\_nm\\_supplemental\\_materials.pdf?1502063032132](http://www.naic.org/meetings1708/cmte_a_latf_2017_summer_nm_supplemental_materials.pdf?1502063032132)



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# PBA for Variable Annuities

- NAIC Variable Annuities Issues Working Group (VAIWG)
  - ▣ Regulatory issues resulting in VA captives
  - ▣ NAIC C3 Phase II/AG 43 Subgroup will support
- Current focus is on a second Quantitative Impact Study (QIS II)
  - ▣ Involves approximately 17 companies and includes three testing cycles
- Supporting proposal to offset FV fluctuations for VA interest rate hedges
  - ▣ NAIC Statutory Accounting Principles WG

[www.naic.org/cmte\\_e\\_va\\_issues\\_wg.htm](http://www.naic.org/cmte_e_va_issues_wg.htm)



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# Variable Annuities – QIS II

- Testing Cycle 1 – elements tested
  - ▣ Remove Working Reserve
  - ▣ Use only realized cash outflows
  - ▣ Currently held hedges may be liquidated
  - ▣ C3P2 RBC based on “CTE High”
  - ▣ Standardized scenarios
- Testing Cycle 2 – elements tested
  - ▣ Standard Scenario – market paths, behavior assumptions, and diversification adjustment
  - ▣ Revenue sharing
  - ▣ Alternative equity calibration scenarios

[www.naic.org/cmte\\_e\\_va\\_issues\\_wg.htm](http://www.naic.org/cmte_e_va_issues_wg.htm)



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# VM-22 Status:

## PBR for Non-Variable Annuities

- VM-22 has been adopted!!!
  - Includes only requirements for valuation interest rates
- Valuation Interest Rates for Income Annuities
  - Applies new business issued beginning 2018
  - Variations based on liability “durations”
    - Treasuries plus VM-20 spreads and defaults
    - Quarterly reset, but daily for “Jumbo Contracts” greater than \$250 million
  - NAIC plans to post the rates on the NAIC website
- Focus is now turning to valuation interest rates for other annuities products

[www.naic.org/cmte\\_a\\_latf\\_vm22sg.htm](http://www.naic.org/cmte_a_latf_vm22sg.htm)



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# VM-22 Status:

## PBR for Non-Variable Annuities (cont.)

- Academy Annuity Reserve Work Group (ARWG) Goals
  - Consistency in reserve methodologies for all annuities
  - Consistency in methodologies between reserves and RBC calculations
  - Floor reserve that does not dominate the modeled reserve
  - “Right-Size” reserves for Fixed Indexed Annuities (FIAs), particularly those with Guaranteed Benefits
  - Continuing to use current CARVM for some products (e.g., pay-out annuities and FIAs without guaranteed benefits)

[www.naic.org/cmte\\_a\\_latf\\_vm22sg.htm](http://www.naic.org/cmte_a_latf_vm22sg.htm)



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# VM-22 Status:

## PBR for Non-Variable Annuities (cont.)

- ARWG pursuing an Exclusion Test approach
  - Pass = follow current CARVM and Actuarial Guidelines
  - Fail = follow a method consistent with AG 43/VM-21
- ARWG looking at modifications to AG 43/VM-21 to address non-variable annuity products
  - e.g., hedges, discount rates, and Standard Scenario
  - Results from NAIC VAIWG will be considered
- Other Considerations
  - Applying VM-22 to inforce
  - Aggregation across lines of business

[www.naic.org/cmte\\_a\\_latf\\_vm22sg.htm](http://www.naic.org/cmte_a_latf_vm22sg.htm)



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# VM-22 Status:

## PBR for Non-Variable Annuities (cont.)

- Academy Deposit Fund Subgroup
  - Asset Maintenance Requirement Proposal
  - Affects other than indexed contract under the Separate Account Funding Guaranteed Minimum Benefits Under Group Contracts Model Regulation
- Adopted by NAIC in late 2016
  - It now part of the Accounting Practices and Procedures Manual and the Valuation Manual

[www.naic.org/cmte\\_a\\_latf\\_vm22sg.htm](http://www.naic.org/cmte_a_latf_vm22sg.htm)



# Experience Reporting Requirements

- New York/Kansas Departments are currently collecting mortality and lapse data
  - ▣ Company data is confidential; aggregate data can be used for experience studies
  - ▣ Being used in financial examinations
  - ▣ More expansion in the future (e.g., to premium patterns)
- Project will expand to be basis for the NAIC Statistical Agent process for PBR; NAIC may administer
- Expected to be expanded to cover long-term care experience reporting requirements



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# Risk-Based Capital and Solvency



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# RBC C-1 Factors for Bonds

- Academy developed a proposal to update C-1 bond factors that has been in discussion for several years
  - ▣ NAIC designations will be expanded from six to 20
  - ▣ All bonds in Schedule D will use the new factors
  - ▣ New factors will also apply to AVR
  - ▣ For statutory accounting and state law purposes, the six-designation system will continue to apply
- The new factors are likely to be effective YE 2018
  - ▣ Final factors are still under discussion
  - ▣ Investment grade factors have increased; below investment grade factors have decreased
  - ▣ Coordination with possible changes to the Health RBC and P/C RBC bond factors could delay implementation



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# RBC C-1 Factors for Real Estate

- NAIC exposed an RBC proposal for real estate
  - C-1 factor for real estate set at 10%
  - Revised RBC factor for encumbrances consistent with commercial mortgages
  - Implements an adjustment to reflect unrealized gains and losses
  - Revises C-1 factor for Schedule BA real estate to 10%
  - Still under development
- Goal is for new factor to be effective at same time as bond factors



# RBC Charge for Operational Risk

- An “add-on” methodology for operational risk has been adopted by the NAIC
  - Factor is applied to TAC, but then an offset is given for current C-4a charge. Net amount is added to TAC.
  - Factor still under discussion but is expected to be 3%
  - There may be a lower factor in the first year
- Additional charge to reflect level of growth under discussion
- Implementation has been delayed until 2018 due to concerns about potential double counting of subsidiaries

[www.naic.org/meetings1708/cmte\\_e\\_lrbc\\_2017\\_summer\\_nm\\_materials.pdf](http://www.naic.org/meetings1708/cmte_e_lrbc_2017_summer_nm_materials.pdf)



# RBC for Longevity Risk

- Current thinking of Academy's Longevity Risk Task Force
  - Statutory reserves sufficiently cover longevity risk via asset adequacy analysis
  - Proposed methodology for RBC risk charge: take the difference between reported reserves (assumed 85% percentile) and reserves under a longevity stressed scenario (95% percentile).
  - Initial thinking was only to focus on trend risk (mortality improvement), but now considering whether basis risk (company mortality varies from table) should also be included
- Field test is being planned in conjunction with the NAIC to evaluate the impact of proposed approach
  - specifications are being finalized
- Earliest effective date: YE 2019

[www.naic.org/meetings1708/cmte\\_e\\_lrbc\\_2017\\_summer\\_nm\\_materials.pdf?1502063217809](http://www.naic.org/meetings1708/cmte_e_lrbc_2017_summer_nm_materials.pdf?1502063217809)



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# New C-2 RBC Charge

- The C2 Work Group of the Academy was formed in 2017 to review the current C2 RBC requirement for life insurance
- 2017 C-2 Work Group Progress
  - ▣ Compiled list of mortality risk considerations
  - ▣ Reviewed methodology used in current factor development
  - ▣ Reviewed other capital regimes' C-2 methods including Solvency II, Canadian LICAT, and IAIS
  - ▣ Reviewed potential methods, structures, and approaches
- Next steps
  - ▣ Analyze mortality risk using a monte-carlo simulation model (similar to original C-2 work).
  - ▣ Will consider factor bases more granular than current approach
- Any change in C2 factors several years down the road

[www.naic.org/meetings1708/cmte\\_e\\_lrbc\\_2017\\_summer\\_nm\\_materials.pdf?1502063217809](http://www.naic.org/meetings1708/cmte_e_lrbc_2017_summer_nm_materials.pdf?1502063217809)



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# Stress Testing

- NAIC Subgroup formed by Life RBC WG
  - ▣ Evaluate RBC in light of PBR
  - ▣ Consider a total balance sheet approach
- Academy Stress Testing WG tentative conclusions
  - ▣ No changes to RBC are needed solely due to the existence of PBR, since RBC assumes reserves are adequate
  - ▣ Will continue to look at other issues that have been raised as a result of efforts to develop PBR, such as updated investment assumptions
- Issue is being moved back to the NAIC Life RBC WG
  - ▣ Assigning a lower priority for now

[www.naic.org/cmte\\_e\\_capad\\_lrbc\\_stress\\_sg.htm](http://www.naic.org/cmte_e_capad_lrbc_stress_sg.htm)



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# Group Capital Developments

- The NAIC has stated that their objective is to develop a capital calculation and not a capital standard
- Key topics being discussed
  - Use of scalars to adjust required capital amounts in foreign jurisdiction to put each company on a level playing field
  - Factors to be used for non-insurance entities
  - Treatment of XXX/AXXX business
- At the NAIC summer meeting, five “decision points” were exposed for comment for 30 days
  - Unwinding prescribed and permitted practices on non-admitted assets
  - Applying PBR to inforce business
  - Treatment of grandfathered captive business under AG48

[www.naic.org/meetings1708/cmte\\_e\\_grp\\_capital\\_wg\\_2017\\_summer\\_nm\\_materials.pdf](http://www.naic.org/meetings1708/cmte_e_grp_capital_wg_2017_summer_nm_materials.pdf)



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# Other RBC Issues

- Academy C-3 Life and Annuities WG
  - Looking at differences between the C-3 “Phases”
  - Treatment of Fixed Indexed Annuities still an open issue
    - Add to C-3 Phase 1 or 2?
- RBC for Unauthorized Reinsurance
  - NY, FL, and CT are taking the lead
  - The NAIC may lower the priority of this issue
- Federal Home Loan Bank (FHLB) Collateral
- Tax Reform
  - Academy WG discussing impact on RBC factors



# Actuarial Practice



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# Streamlining Actuarial Reporting

- NAIC Project
  - Companies submit up to 19 standalone reports
  - Improving communication of information by avoiding repetition of data and facilitating data capture
  - Summary-level reports and electronic links
  - Involves 10 companies and 7 states



# Actuarial Standards Board (ASB) Activities

- New Standards
  - ASOP on PBR expected to be approved in September
  - ASOP on Modeling expected ASB action by the end of the year
- Revisions to existing standards
  - ASOP No. 17, *Expert Testimony by Actuaries* – expected ASB action by the end of the year
  - ASOP No. 21, *Responding to or Assisting Auditors or Examiners in Connection with Financial Audits, Financial Reviews, and Financial Examinations* – effective December 15, 2016
  - ASOP No. 23, *Data Quality* – effective September 1, 2017
  - ASOP No. 24, *Compliance with the NAIC Life Insurance Illustrations Model Regulation* – effective April 30, 2017

[www.actuarialstandardsboard.org](http://www.actuarialstandardsboard.org)



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# Actuarial Standards Board Activities (cont.)

- Exposure drafts
  - *Setting Assumptions* – reviewing comments, new exposure draft anticipated in March 2018
  - *Pricing Life Insurance and Annuity Products* – comment deadline Oct. 31, 2017
- ASB has approved the proposal to revise
  - ASOP No. 2, *Non-guaranteed Charges or Benefits for Life Insurance Policies and Annuity Contracts*
  - ASOP No. 11, *Financial Statement Treatment of Reinsurance Transactions Involving Life or Health*
- Other new activity in 2017
  - Creation of a task force on Big Data
  - New ASOP on *Capital Adequacy Assessment* and new task force to update ASOP No. 11, *Reinsurance*
  - ASB Life Committee considering a review of ASOP No. 22, *Actuarial Opinions Based on Asset Adequacy Analysis*



# Reinsurance Practice Note

- Official Title “Credit for Life Reinsurance in U.S. Statutory Financial Statements”
- Exposure draft May 2017
- Updates the existing Reinsurance PN to cover, e.g.,:
  - Dodd-Frank financial reform act
  - Treatment of reinsurance in PBR
  - The latest AG 48 model regulation

[www.actuary.org/files/publications/Life\\_Reinsurance\\_Reserve\\_Credit\\_Practice\\_Note\\_05042017.pdf](http://www.actuary.org/files/publications/Life_Reinsurance_Reserve_Credit_Practice_Note_05042017.pdf)



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# U.S. Qualifications Standards

- U.S. Qualification Standards (USQS)
  - [www.actuary.org/content/us-qualification-standards](http://www.actuary.org/content/us-qualification-standards)
  - FAQs on the USQS (great resource!)
  - Online link for submitting additional questions
  - “Which CE Requirements Apply to Me?” (infographic)
- The Academy has an attestation form for compliance with the USQS
- Other resources
  - E-learning courses “Understand the Code of Professional Conduct” and “Addressing Ethical Concerns”
    - [www.actuary.org/content/actuarial-elearning-center](http://www.actuary.org/content/actuarial-elearning-center)
  - Library of Professionalism webinars
    - [www.actuary.org/professionalism/webinars](http://www.actuary.org/professionalism/webinars)



# Appointed Actuary and Opinion Topics



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# Life & Health Valuation Law Manual

- Gives summary of each state's valuation requirements
- Provides one-source reference for applicable actuarial guidelines and NAIC model regulations

Later this year, look for  
[www.actuary.org/content/2017-life-health-valuation-law-manual](http://www.actuary.org/content/2017-life-health-valuation-law-manual)



# State Requirements/Differences

- ❑ Need to follow state requirements; some states will accept state of domicile
- ❑ Can file separate opinions/memoranda in separate states (state of domicile filed with NAIC)
- ❑ California and New York have holiday letters



# NY Special Considerations Letter

- For 2013 and later, asset adequacy testing requirements replaced sensitivity tests
  - Required maximums on asset spreads
  - Specified assumptions regarding lapses
  - Required stand-alone testing for long-term care (LTC), long-term disability (LTD) insurance, health insurance, life insurance, and annuities; ask to aggregate results
- Possible issues for 2017: payout annuity mortality, RBC assumptions?

Later this year, look for  
[www.dfs.ny.gov/insurance/life/reserve/spec\\_con\\_2017.pdf](http://www.dfs.ny.gov/insurance/life/reserve/spec_con_2017.pdf)



# 2017 Year-end Testing Issues

- ❑ Low interest rates
- ❑ Mortality assumptions of payout annuities may be too high
- ❑ Lapse assumptions on deferred annuities, ULSG, guarantees on variable annuities may be too high
- ❑ Comparison of assumptions to PBR assumptions



# American Academy of Actuaries

## Life & Health Qualifications Seminar

- A succinct and effective way to fulfill some of the important requirements to sign statutory opinions for Life and Health Annual Statements
  - Topics include reserve valuation, nonforfeiture, RBC, and professionalism
  - Applicable economic, regulatory, and legal environments
  - The identification, evaluation, and management of risk
- Fulfills Basic Education requirements which may not have been met through SOA studies
- Serves as a source of CE for more experienced actuaries
- Is a good overview of appointed actuary work

[www.actuary.org/2017LHQSeminar](http://www.actuary.org/2017LHQSeminar)



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# Questions



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