



## 65 - US GAAP Targeted Improvements - Market Risk Benefits for Annuities: Requirements and Considerations

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# 2019 Valuation Actuary Symposium

## Market Risk Benefits for Annuities: Requirements and Considerations

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# Agenda

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- Introduction (5 minutes)
- Presenter's roundtable (60 minutes)
- Q & A (10 minutes)

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# Your presenters for Today



**Teresa Branstretter**  
Athene USA

Teresa Branstretter is VP Corporate Actuarial Modeling Services for Athene USA where she leads the Corporate Actuarial modeling team responsible for governance, model support and development, and actuarial production modeling. She is currently leading a multi-year effort to consolidate all models for GAAP and Stat valuation and analysis to a single model platform with streamlined controls and production automation in preparation for LDTI.



**Robert Winawer**  
Oliver Wyman

Robert Winawer is a Principal with the Actuarial practice of Oliver Wyman and is based in Boston. He has over twenty-five years of actuarial experience in the life and annuity industry. His areas of expertise include financial reporting, M&A, reinsurance, advanced data analysis, and financial planning. Robert has held positions at other insurance companies, auditing, and consulting both in the US and internationally.



**Jean-Philippe Laroche**  
Ernst & Young LLP

Jean-Philippe Laroche is a Manager in the Insurance and Actuarial Advisory Services (IAAS) practice of Ernst & Young LLP. Jean-Philippe's background include actuarial modeling, actuarial transformation and financial reporting. Over the last year, he has supported various companies with the implementation of U.S. GAAP Long Duration Targeted Improvement and in particular Market Risk Benefits.



**Nate Dorr**  
Milliman Inc.

Nate Dorr leads the Quantitative Development Group within Milliman's Financial Risk Management practice in Chicago. The group focuses on quantitative finance modeling for market consistent valuation and pricing of equity and interest rate derivatives with a particular focus on those embedded and related to insurance products. The group also focuses on quantitative driven fund management, volatility forecasting, volatility controlled funds and risk parity strategies. Nate oversees development and support of FRM's standard software suite for valuation and risk analysis of fixed income assets and derivatives in real time trading applications.



**Karthik Yadatore**  
Milliman Inc.

Karthik Yadatore is a Principal and Consulting Actuary with Milliman Inc. Karthik's primary practice areas are in actuarial financial reporting and, merger and acquisition for annuity and life insurance products. Karthik's recent focus has been analyzing and helping companies implement LDTI in their actuarial models. Karthik is based out of Seattle, WA.

# Accounting Policy and Valuation Methodology

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## MRB Classification

- How have companies approached the task of classifying product features as MRB, ED or insurance benefits due to LDTI?
- What product features have you seen fall under the MRB classification? Do you anticipate annuitization benefits associated with deferred annuities to be valued as an MRB?

## Option and Non-Option Classification

- What are the considerations when choosing between option (host contract) vs non-option (attributed fee) method for valuing MRBs? Are you seeing a method being more popular?
- How can an entity achieve zero-gain or loss at issue with either method? What happens if you use the attributed fees and a cohort fee ratio is capped at 100%?
- Explain valuation of host contract established due to an MRB?

## VOBA

- Do you anticipate the presence of MRBs on PGAAP blocks to impact the choice of amortization basis for VOBA?

# Accounting Policy and Valuation Methodology (Continued)

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## Own Credit

- What are the common approaches for setting the own company credit spread?
- Do you see this change as a result of LDTI?

## Indexed Products

- How should entities set their option budget assumption when valuing MRBs on indexed products?
- Should actuaries look at establishing consistency in valuation of the VED and MRB? If so, how would the consistency be achieved?
- What are your thoughts on using a stochastic vs deterministic approach for indexed product MRB?
- Do you foresee additional challenges when valuing MRBs on indexed products?

## Disclosures

- Comment on practical aspects in meeting disclosure requirements. Explain the actuaries role in exercising judgement when deciding level of aggregation and disaggregation.

# Risk Neutral Generator

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## Generator Selection

- What are the available stochastic models that can be used for market consistent valuation during hedging, pricing and financial reporting?
- Do you see the selection of stochastic models change with LDTI?
- What are some of the key considerations for actuaries when selecting a generator?
- Do you see companies use different models to value MRBs within a company (i.e. should the same generator be used across VA and FIAs)?

## Generator Calibration

- What are some of the key considerations for the calibration of risk neutral generators for MRBs?

## Generator Validation

- How should an actuary validate the ESG model output / projected economic scenarios?

# Implementation and Operational Aspects

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## Progress and Timeline

- Where is the industry at in implementing market risk benefits and how do you see companies using the additional year?
- Provide your perspectives on the how the need for historical inforce data and assumptions at the product and MRB inception or purchase impacted the implementation of targeted improvements for MRBs.

## Coordination with Other Programs

- Are entities using the MRB valuation process implementation as an opportunity to modernize their valuation process and infrastructure? How will valuation of MRBs on a fair value basis impact hedge programs, reinsurance, and product pricing and development?
- Do you anticipate entities performing more frequent and sophisticated experience studies to validate their assumptions?

## Other Operational Aspects

- What are some of the top operational concerns with MRBs?
- Explain striking the balance between implementing optimal solutions from a balance sheet and income statement perspective vs practicalities of implementation and maintenance.



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