Life Insurance Update

Presented by

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2015 Spring Meeting

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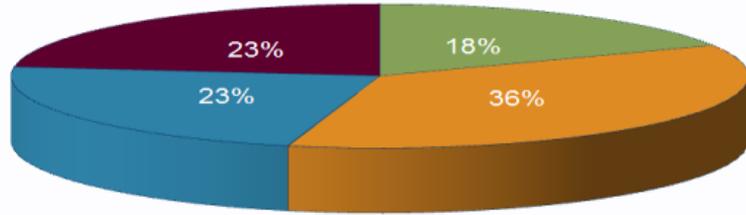
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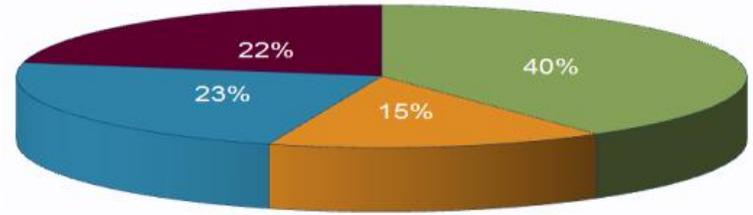
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Agenda

- Market update and product trends

- Continuing impact of low interest rates

- Indexed Universal Life Illustrations

- Life Principles Based Reserves / VM-20

- Rector Report / Actuarial Guideline 48

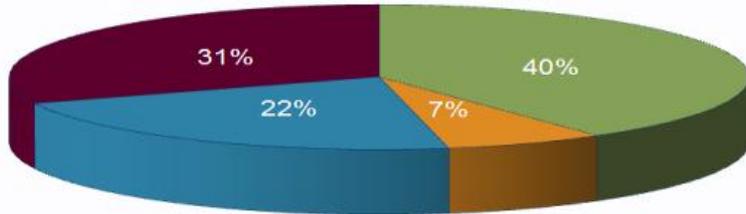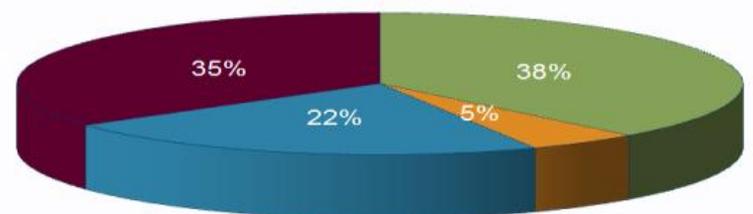- Fixed Annuity PBR / VM-22

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Life Market Share: History

Source: LIMRA

Another View of Life Market History

Source: LIMRA, US Individual Life Insurance Yearbook 2013, US Individual Retail Sales Q4 2014
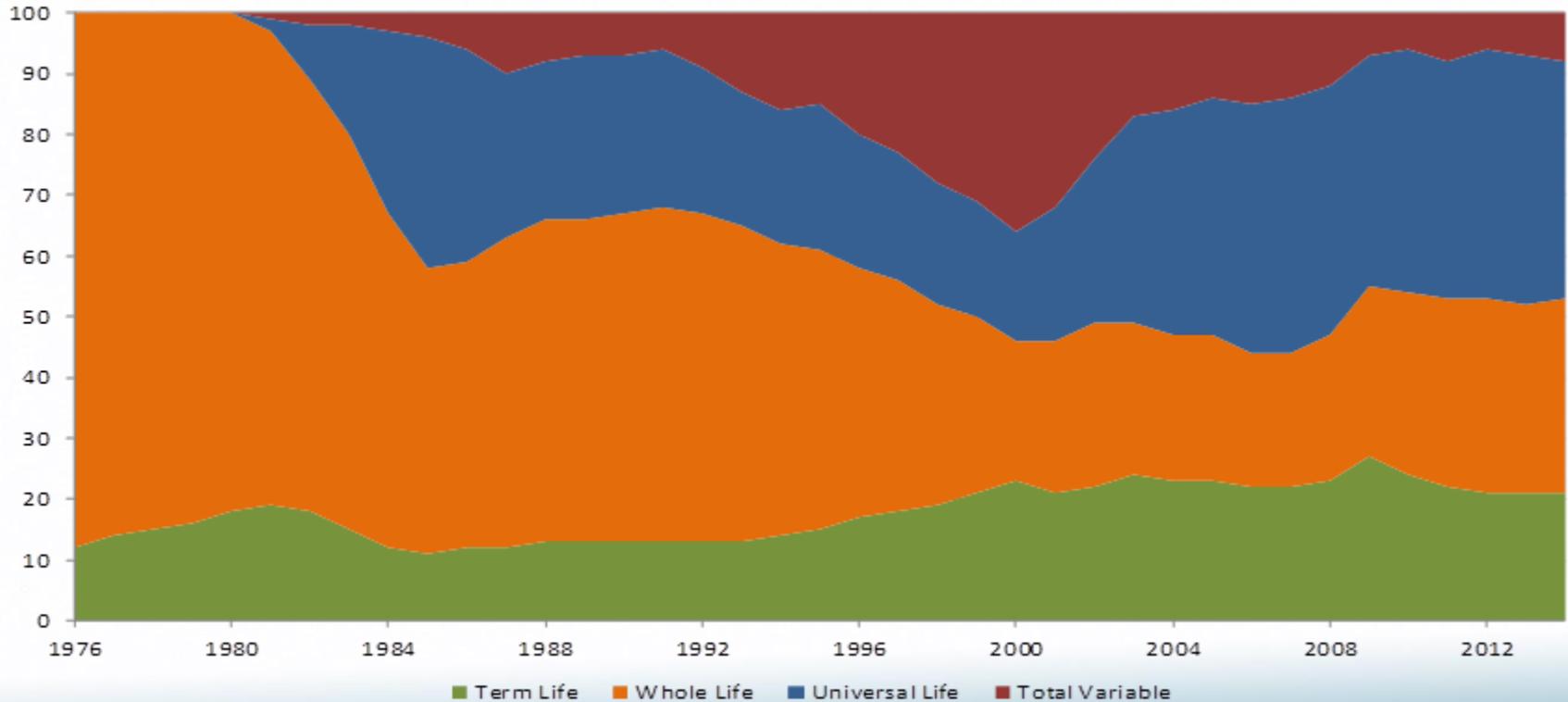
4Q 2014 UL Market Share of Premium
by UL Type

Legend:
- IUL-ULSG
- ULSG
- Term UL +
- Other
- IUL-CA
- CA
- IUL-Accum
- Accum

+ Less than one half of one percent

Pie chart values: 4%, 2%, 21%, 36%, 8%, 16%, 13%

Source: LIMRA

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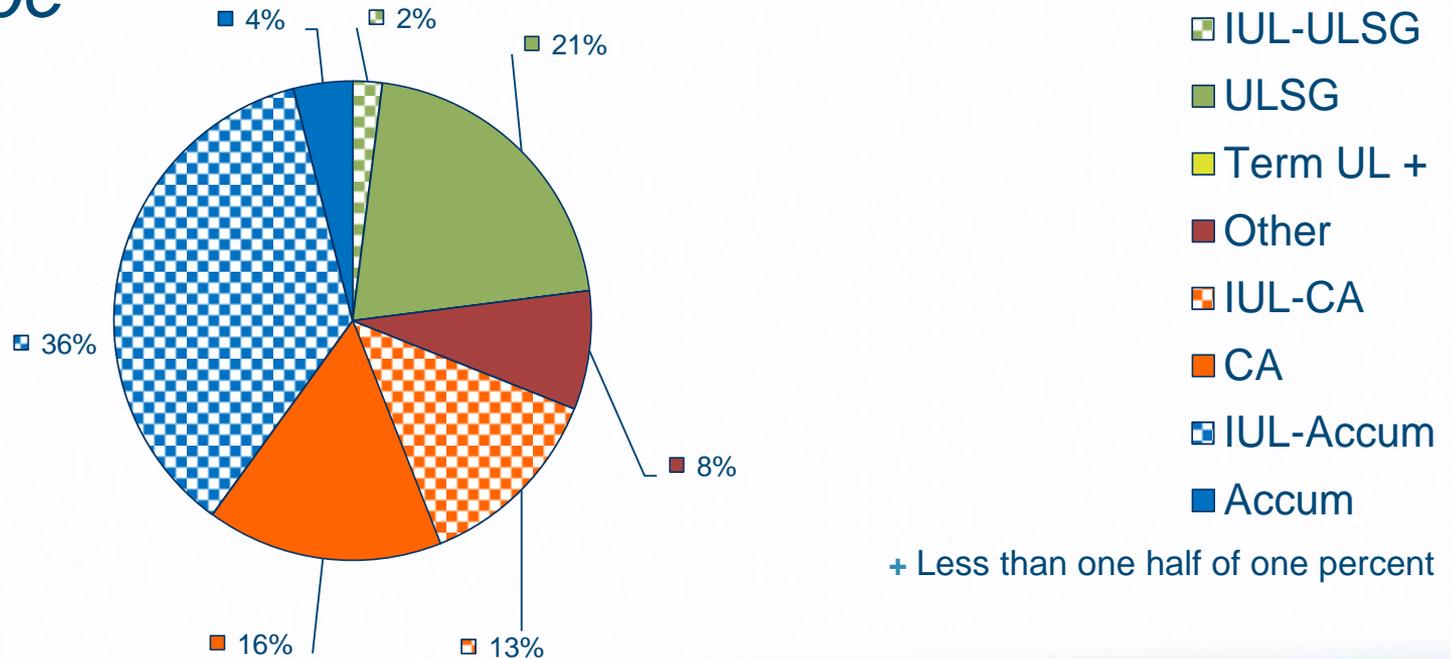
Indexed UL Sales

Top Characteristics of 4th Quarter Sales

	2014	2013	2011	2008
Carriers Offering Product	50	52	46	35
Annual Point-to-Point	79.7%	82.6%	70.4%	64.5%
S&P 500	59.2%	71.5%	86.4%	The norm
Rainbow/Multi-Index	26.1%	21.5%	4.6%	6 carriers offering
Other (including Fixed)	14.7%	7.0%	9.0%	8 carriers offering other than S&P

Source: Wink's Sales & Market Report 4th Quarter 2014 and prior analogous versions

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Variable UL

Premium Year over Year
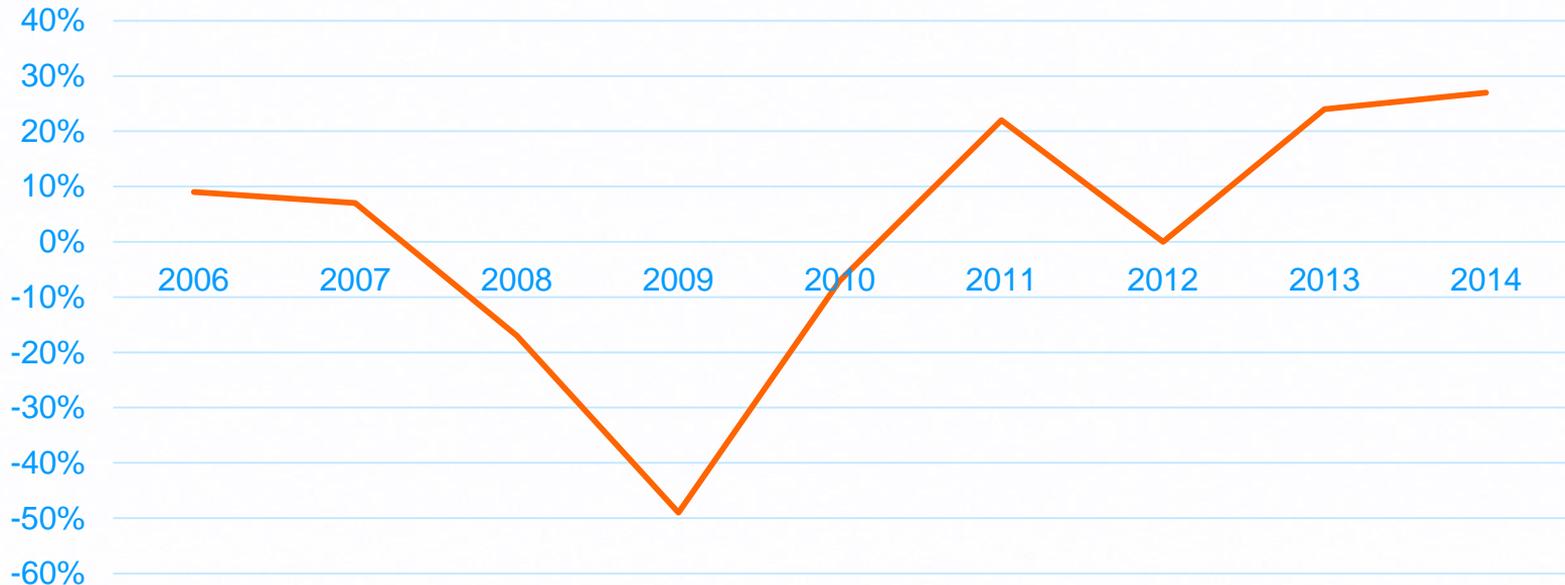
Source: LIMRA

IUL Illustration Regulation (1/2)

- AG49 adopted by LATF and approved by A Committee, full approval later
  - Expecting partially effective September 1, 2015, loan provisions next March

- Illustrated Scale uses a 65 year look back with 25 year periods
  - If a "Benchmark Index Account" is available, apply current annual cap to past S&P performance
    - S&P, 1 year point to point, 100% Participation, 0% floor, annual crediting, annual cap
  - Illustrated credited rate calculated as an average of the average rate in series of 25 year periods
  - If a product does not feature the "Benchmark Index Account" actuarial judgement necessary. Anticipation that Benchmark Acct rate won't exceed 7%.

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IUL Illustration Regulation (2/2)

- Disciplined Current Scale earned interest rate limitations
  - 145% of net earned rate if using a hedging program, 100% otherwise
- Market reaction is still TBD

PBR for Life Products / VM-20

- ■ What to know…

  - – Adoption Status (as of early June)

    - • 34 of 42 necessary states, 58% of 75% necessary premium

    - • 8 more states with 19% of premium are "in progress" (estimates vary)

  - – 1/1/2017 effective date likely, based on July 1 deadline

  - – Components:

    - • Net Premium Reserve   Deterministic Reserve

    - • Stochastic Reserve

    - • Deterministic Exclusion Test   Stochastic Exclusion Test

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Rector / Actuarial Guideline 48

- NAIC hired Rector & Associates to make recommendations for improving uniformity and transparency in captive transactions as well as treatment under PBR

- The Rector Report (initial, final, and modified recommendations based on industry comments) became the basis for Actuarial Guideline 48

- AG48 adopted in November 2014, effective 1/1/2015

- Applies to Term and ULSG products subject to XXX/AXXX

- Sets a "Required Level of Primary Security" backed by certain assets

- "Level" is determined by the "Actuarial Method" which is VM-20

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AG48 Compared to VM-20

- AG48 eliminates the exclusion tests, term reserve is greater of NPR and DR, ULSG reserve is greater of those and SR

- AG48 overrides VM-20 language on reinsurance, until VM-20 is adopted
  - Reinsurance cash flows not included in DR and SR, YRT or Coinsurance credit is calculated as ½ modal Cx or quota share percent, respectively

- VM-20 will not be retroactive, AG48 can apply retroactively to policies not previously part of a non-exempt reinsurance arrangement

- AG48 applies scalars derived from 2014 VBT / 2001 VBT that can reduce the NPR

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Implementing AG48 or VM-20

- Must decide on level of sophistication and when to take action

- Do pricing models include standard logic for VM-20? Do we have to upgrade? How much more customization will we need?

- Setting of assumption PADs for Prudent Estimate Assumptions
  - Can be similar to AG 38 8D analysis
  - Mortality mapping to 2008 VBT tables

- Complex products requiring premium solves for NPR
  - Similar to solve issues with 2001 CSO table

- Academy Scenario Generator and asset modeling

- Possibly significant runtime on large inforce blocks or model offices

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Implementing AG48 or VM-20

- Current Activity – Inforce and flow business and Captives
  - Inforce business not in yet captive and open ended reinsurance arrangements
  - Discussions with regulators
  - Analysis for impact on new product designs, or need for re-design
- Discussed Activity – Full valuation implementation, pilots
- Challenges
  - VM-20 is still a moving target, what questions will turn up from AG48?
  - Availability of asset data and mortality tables specified by VM-20
  - Personnel familiarity with Reg's & Models / building institutional knowledge
  - Gathering experience data, having sufficient experience

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VM-22: PBR for Fixed Annuities

- Three approaches being considered by subgroup, will ultimately recommend 1 to LATF. Goal of any approach is to "right-size" reserve levels.
  - (1) Replicate VM-20 with formulaic floor (AG33 light?) and discounted cash flow method (stochastic only?, no single scenario deterministic?)
  - (2) Representative Scenario Method – focus on key risk drivers for stochastic modeling, but in a limited scope by testing central estimates and distributions, weight scenarios by probability plus individual or aggregate margin
  - (3) Modernize and correct current formulaic method such as by defining new methodology for features such as GLBs
- New business only
- Still much work to do – testing, gathering feedback, drafting regulation

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