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Life Insurance and Annuities (A) Committee
Louisville, Kentucky
March 23, 2023

The Life Insurance and Annuities (A) Committee met in Louisville, KY, March 23, 2023. The following Committee members participated: Judith L. French, Chair (OH); Carter Lawrence, Vice Chair (TN); Mark Fowler (AL); Barbara D. Richardson (AZ); Karima M. Woods represented by Philip Barlow (DC); Doug Ommen (IA); Vicki Schmidt (KS); James J. Donelon (LA); Eric Dunning (NE); Marlene Caride (NJ); Scott Kipper (NV); Adrienne A. Harris represented by Mona Bhalla (NY); Glen Mulready (OK); Scott A. White represented by Don Beatty and Craig Chupp (VA); and Nathan Houdek (WI). Also participating was: Rachel Hemphill (TX).

1. Adopted its Feb. 24 Meeting Minutes

Director French said the Committee met Feb. 24 and took the following action: 1) adopted its 2022 Fall National Meeting minutes; 2) adopted revisions to *Actuarial Guideline XLIX-A—The Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest to Policies Sold on or After December 14, 2020* (AG 49A); and 3) adopted *Actuarial Guideline LIV—Nonforfeiture Requirements for Index-Linked Variable Annuity Products* (AG 54).

Commissioner Caride made a motion, seconded by Director Dunning, to adopt the Committee's Feb. 24 minutes (Attachment One). The motion passed unanimously.

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

Hemphill said the Life Actuarial (A) Task Force met Mar. 20–21 at the Spring National Meeting. She said the Task Force had a robust discussion of the impacts of a rising interest rate environment, including hearing from the Society of Actuaries (SOA) on relevant actuarial research, as well as hearing from company actuaries regarding their sensitivity testing and ongoing monitoring of the appropriateness of their assumptions, including dynamic lapse behavior.

Hemphill said the Task Force re-exposed an amendment proposal form (APF) to shorten the time lag in Valuation Manual (VM)-50/VM-51 mortality experience reporting from two years to one year. She explained that this change will require a transitional year in which companies submit two years of mortality experience data, but then it will allow for more timely analysis and reporting of mortality experience and the development of mortality tables. She said the industry supports these efforts, but there may be a need for additional flexibility in the reporting deadlines in the first year or two as companies adjust their processes to the new reporting timeline.

Hemphill reported that the Task Force continued discussion on the work to develop a replacement economic scenario generator, including hearing an update on the activities of the Economic Scenario Generator Governance Drafting Group and the Economic Scenario Generator Technical Drafting Group and hearing a presentation from NAIC staff on quantitative results from the Economic Scenario Generator field test.

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

3. Adopted the Report of the Accelerated Underwriting (A) Working Group

Commissioner Houdek said the Accelerated Underwriting (A) Working Group met Feb. 22 and took the following action: 1) exposed the draft regulatory guidance for accelerated underwriting (AU) in life insurance for a 45-day public comment period ending April 15; and 2) exposed the draft referral to the Market Conduct Examination Guidelines (D) Working Group for a 30-day public comment period ending March 24.

Commissioner Lawrence made a motion, seconded by Commissioner Ommen, to adopt the report of the Accelerated Underwriting (A) Working Group, including its Feb. 22 minutes (Attachment Two). The motion passed unanimously.

4. <u>Heard a Presentation from the ACLI and the SOA on the Current State of Life Insurance</u>

Patrick C. Reeder (American Council of Life Insurers—ACLI) explained that the ACLI's chief economist and vice president of research, Andrew Melnyk, will be giving a high-level presentation focused solely on life insurance and not the other products that life insurers sell. He said that Dale Hall, managing director of research at the SOA Research Institute, will give the second part of the presentation, focusing on mortality trends.

Melnyk discussed a number of slides illustrating the changes in life insurance over time from a variety of vantage points. His first slide showed annual percentage changes in life insurance death benefits paid from 1910 to 2021 to illustrate how the last few years of the COVID-19 pandemic fit into the historical context. He said between 1920 and 2021, the greatest percentage increases occurred in 1918, which saw a 40% increase, followed by 1926, with a 15.3% increase. Next was 2020, which saw a 15.4% increase, and 2021, which saw a 10.8% increase. The next slide illustrated life insurance death benefits paid over time between 1880 and 2021 in dollars, adjusted for inflation. He said the graph shows increases in the actual amounts paid over time, with a steep, significant jump in the amount paid over the last two years. He said this illustrates why the life insurance industry is important and that it has been consistently meeting its obligations.

Melnyk said the next slide shows annual life insurer risk-based capital (RBC) ratios between 2018 and 2021. He said the average RBC ratio in 2020 was 428%. In 2021, it was 443%, which is a bit better than the average in 2018, when it was 424%. He said the percentage of companies with RBC greater than 200% (by assets) in those four years also has remained relatively constant. There are less than 1% of companies with RBC below 200%, which illustrates the strength of the life insurance industry.

Melnyk said the next slide compares individual and group life insurance purchases between 1985 and 2021. He said the graph shows a steady increase in individual life insurance purchases over time. He said there was a slight dip in group purchases between 2019 and 2021 during the COVID-19 years, which can be attributed, at least in part, to the erratic labor market and unprecedented unemployment due to stay-at-home orders. He said that individuals continue to purchase life insurance, and he anticipates a continuing increase in individual purchases. He said that in looking back in history, there was unprecedented growth in the life insurance market in the years following the 1918 pandemic. He said between 1917 and 1926, the dollar amount of in-force life insurance more than doubled. He said that there were other factors involved at the time, like World War I and an exploding economy, but he said he thought that the industry might experience an increase coming out of COVID-19, just to a lesser degree. He said there seems to have been an increase in demand for life insurance during the last few years, but that may be short-lived. He said the Life Insurance Marketing and Research Association (LIMRA) has looked into this and anticipates things will return to a more normal level.

Melnyk discussed the next slide showing a graph of life insurance as a percentage of gross domestic product (GDP) from 1945 to 2021. He said the graph strips away price and premiums and shows mortality and the savings component of life insurance in relation to the economy as a whole. He explained that the graph shows that life insurance, as a percentage of GDP, was on an upward trend throughout most of the World War II era, but since the mid-1990s, it has started to fall. He said that he does not have an explanation for this trend, and it is something that requires much more study, but it suggests society is underinsured.

The last slide graphs the percentage of families reporting any life insurance coverage between 1968 and 2019, based on data from the U.S. Federal Reserve *Survey of Consumer Finances* (SCF), which is an extensive survey of household finances. He said this graph shows that the percentage of families self-reporting any life insurance coverage at all has steadily declined, from a high of 85.4% of families reporting life insurance coverage in 1971, to a low of 59.4% of families in 2019. He said once more current data is available, it will be seen if the pandemic had any effect on these numbers.

Reeder pointed out that the ACLI *Life Insurers Fact Book* was the resource for much of the data provided in the presentation. He said it contains a great deal of information about the life insurance industry and is available on the ACLI's website. He said that the data in the first few slides of the presentation shows that state insurance regulation works and that the industry provides an important resource for consumers. He said that while the last couple of slides show a decline, the ACLI is looking into the reasons for that decline and how to remedy that, which involves delving into questions of race and insurance and how to break down barriers to access, particularly in underserved communities. He said that the ACLI is researching how technology may decrease barriers and increase access in underserved communities.

Hall said, in his presentation, he would make some observations about mortality and discuss how those population trends relate to insured mortality based on reviewed historical U.S. population mortality data from the Centers for Disease Control and Prevention (CDC). He said since 1999, there have been reasonably strong mortality improvements in the U.S., with the strongest improvements in the first 10 years of this century. After that, between 2010 to 2019, mortality continued to improve but at a slower pace. In 2019, the population mortality rate was 715 deaths per 100,000. He said there was a 16.8% increase in 2020 (4.9% with COVID-19 removed) with age-adjusted rates at 835 deaths per 100,000. He said mortality increased again in 2021 by another 5.3%, with 880 deaths per 100,000, which is the same mortality rate as in 1999. Hall said we are awaiting fourth-quarter 2022 data, but the full year is looking like it is down from 2021, which is close to results for 2020. Hall said that population life expectancy is one statistic that can be used to compare where trends are over time.

Hall reviewed the next slide showing changes in mortality rates by cause of death. Hall said heart disease has increased as a cause of death in the population after many years of downward trends, and mortality due to cancer increased for the first time in 22 years. Hall pointed out that there was a large increase in mortality due to chronic conditions such as diabetes, liver disease, and hypertension. Hall said that many of these may be the result of people putting off care during the pandemic and hopefully will improve as people return to normal. Hall discussed the chart comparing the relationship between population mortality trends to group life and individual life trends. Historically, insured mortality is 30%–50% of what happens in the population, and this seems to have held true during the pandemic. He showed a slide illustrating actual to expected mortality trends in the insured market compared with actual and expected mortality trends in the population. He said some of the largest actual to expected ratios occurred during the delta and omicron variants in late 2021. He said data for the second quarter of 2022 shows the ratio of actual to expected claims below 100% for the first time since the start of the pandemic, and there may be some indication, based on third- and fourth-quarter data from 2022, that things are slowly getting back to a more normal actual to expected ratio. Hall explained that his final slide shows ratios of individual life insurance claims during 2020–2022 compared to 2017–2019. He said the largest individual life mortalities were in the third or fourth quarter of 2021 and started to come down in 2022.

Commissioner Lawrence asked about the ACLI slide that showed a 25% decline in the percentage of households reporting life insurance coverage from the high in 1971 to the low in 2019. He wondered whether there was any information available that would show the demographic distribution of the decline, such as the differences by geographical area or socioeconomic sector. Melnyk said they had not looked into that data very deeply and did not have that information. Commissioner Mulready said that a 25% decline in coverage and a 25% increase in death rates is concerning for the industry. Reeder said that this was a large reason why the ACLI is spending a lot of time making sure it accesses consumers and identifies what has changed to cause the decline. He said that the ACLI does not have the socioeconomic and demographic information related to data that comes from the federal government. He said that there have been a lot of changes in family structure over time, and the insurance industry has to learn to innovate. He said that the industry has to be more deliberate in its efforts to reach underrepresented communities and that it must make sure barriers come down and engagement is fostered in the industry at every level.

Commissioner Mulready said he heard a report of a 40% increase in deaths and another report recently about an increase in heart attacks in young people. He asked if there was any information about the average age of death. Reeder said the ACLI saw that reporting, and the thinking is that the reporting was based on early SOA research that was not fully understood by those reporting on it as far as the trending. Hall said that there are many ways to look at group life data, such as by occupation code or areas of the country. He said another important way to study excess mortality is by looking at different age bands. Hall said some of the overall pandemic results show a 30% increase in excess mortality, and some of that was concentrated in some of the younger working ages. He cautioned, however, that the mortality rates for younger age groups are already quite low, so when excess deaths are added on to what is already a small number, the percentages get higher. Hall said that in the group insurance market, it is important for insurers to consider demographic data in order to make the right assessment of the risks associated with a particular group. He said, for example, that insurers should consider the potential impact of retired lives that might be part of the group, or how much of the group is the working population, and that different occupation codes have different exposures, especially during a pandemic.

Commissioner Donelon said that he was in Tokyo about 10 years ago for a meeting about the much higher take-up rate per capita of life insurance in Japan than in the U.S. but that Europeans owned much less life insurance. He said if this is still the case, it might indicate that cultural factors are the driver of whether someone purchases insurance. Melnyk said that he is not aware that the statistics have changed and thinks there are many variables that affect the demand for life insurance. He said cultural factors are variables to be considered. He said he knows that, for example, in Japan, it is not uncommon for a person to purchase a whole life insurance policy as soon as they graduate from college. He said that saving is also much more common in the culture, so that may have something to do with it as well.

Birny Birnbaum (Center for Economic Justice—CEJ) said the ACLI *Life Insurers Fact Book* contains some interesting information that could complement the presentation. He said in 1955, the U.S. population was around 165 million people, and there were 22 million individual life insurance policies in force. He said in 2021, the population had doubled, but there were only 10 million individual insurance policies in force. He said the number of group certificates during that same time frame went up from 2.2 million to more than 25 million, but that is still less than what was in force for group policies in 2004. Birnbaum said these statistics illustrate that insurance companies are marketing their products more as investments than death protection and focusing more on affluent consumers and higher face amount policies.

Birnbaum said another piece of information that gets at the issue of underserved communities is the difference in life expectancy by income and by race. He said there is a widening gap in life expectancy based on income and that communities are underserved, not because of changing needs for life insurance, but because producers are not serving them. He said that these factors need to be considered when thinking about how to address insurance for the underserved. He said that insurance companies recognize these trends, so the question is how to get involved with more loss prevention and loss mitigation to make risky policies less risky and more attractive for insurance companies to write. Brendan Bridgeland (Center for Insurance Research—CIR) asked if there have been any comparisons of product offerings and innovations and the decline in household life insurance ownership. He asked whether there has been a focus on using life insurance products as investment planning for high-net-worth individuals at the same time as a decline in sales to lower and moderate-income families.

Reeder said that since 1955, there has been an increase in group life insurance, which is a part of the socioeconomic changes during which insurance became more readily accessible through the workplace. The ACLI agrees with Birnbaum and Bridgeland and wants to bring products to the consumers who need them. He said if the industry is not thoughtful about increasing access, it will continue to struggle, which is why they are putting time and energy into programs and initiatives to decrease barriers to producer licensing and being thoughtful as an industry. He said that Birnbaum and Bridgeland raise valid concerns, and they are the types of things the ACLI is looking at. Melnyk said that the ACLI has not done a study like Bridgeland suggested of product offerings. He said there have been some observations looking at ownership patterns in underserved communities, and there is some indication that ownership peaks at later ages. Still, there has not been a lot of research done beyond that.

Director Richardson said that around five years ago, she heard that the average age of a life insurance producer was approximately 57 years old. She wondered if that was still true or if the industry had found a way to reach a younger and more diverse group. Reeder said that is still the case and that the industry recognizes the need to bring new people into the industry, not just as producers, but in every aspect of the industry. Reeder said he would provide some follow-up information about the industry efforts in this area.

Brenda J. Cude (University of Georgia) said that the graph showing the percentage of families reporting any life insurance comes from data from the SCF, which notoriously does not do a good job of asking life insurance questions. She said one example is a question regarding health insurance. The question asks if a person has health insurance; if they do not, it asks why. She said there is no parallel question for life insurance. She also said the survey asks about term and whole life insurance, but it is possible that a person has universal life or coverage through an employer and may answer no. She said if there was a desire to make suggestions to the Federal Reserve Board (FRB) regarding ways to improve the questions they ask about life insurance in the SCF, she would be available to assist with that project. She said she knows many researchers who would value that. Melnyk said this was a comprehensive survey, but the depth could be better, so to the extent that the NAIC would want to work with the FRB to improve the survey, it would be willing to help. He also mentioned that the ACLI uses a proprietary database to confirm the information from the SCF and has found that the information generally matches. Birnbaum suggested that some of the granular data that the NAIC collects could be repurposed to inform some of the questions and research that was talked about.

5. <u>Discussed Other Matters</u>

Director French recognized Peter G. Gallanis' retirement as president of the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) with the following resolution:

> WHEREAS, Peter G. Gallanis has served as President of the National Organization of Life and Health Insurance Guaranty Associations ("NOLHGA") since 1999 and, prior to that, served as the Special Deputy Insurance Receiver for the State of Illinois; and
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> WHEREAS, Peter has been a longtime friend and supporter of the NAIC, working with Insurance Commissioners and NAIC Task Forces and Working Groups on a host of issues relating to troubled company resolution; and
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> WHEREAS, Peter has worked tirelessly to protect consumers of insolvent life and health insurance companies and to support the national state-based guaranty system, including by speaking and testifying on insurance matters before a number of courts, state legislatures, Congress, the NAIC, the IAIS, and the FSB; and

WHEREAS, Peter's dedication to the guaranty system has taken him around the world, from Canada to Switzerland to Taiwan to Thailand and to state capitals across the country, not to mention his beloved Chicago.

THEREFORE, BE IT RESOLVED, that the Life Insurance and Annuities (A) Committee wishes to express its heartfelt gratitude to Peter G. Gallanis, on the occasion of his retirement as President of NOLHGA, for more than three decades of service to state regulators, the guaranty system, and the consumers they protect.

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

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