

LIFE RBC—C-2 MORTALITY RISK

Introduction

This document is an instruction supplement for addressing implementation questions for the newly adopted life insurance C-2 mortality structure, factors, and LR025 instructions. This serves as an addendum to the instructions and not a replacement. The instruction supplement is intended to address typical practices. Each company should be able to demonstrate and justify their approach for assigning amounts to the categories if challenged by regulators. The format is question-and-answer.

Relevant Actuarial Standards of Practice

1. What actuarial standards of practice are relevant in completing the life insurance C-2 work?

Actuarial Standard of Practice (ASOP) No. 1, _____ ; and ASOP No. 41, _____ are general standards that apply.

ASOP No. 2, _____ ; ASOP No. 11, _____

LIFE RBC—C-2 MORTALITY RISK

For individual life amounts ceded to a non-affiliated reinsurer, the amounts should be assigned to the Life Policies with Pricing Flexibility category if the assessment of pricing flexibility is not completed.

For group and credit life insurance amounts ceded to a non-affiliated reinsurer, the amounts should be assigned to the Group & Credit Life with Remaining Rate Terms 36 Months And Under category if the assessment of remaining rate terms is not completed.

For individual life insurance amounts assumed by a non-affiliated reinsurer, the default category will vary depending on whether the policy is a term life or permanent life product. Term life policies should be assigned to the Term Life Policies without Pricing Flexibility category and permanent life policies should be assigned to the Permanent Life Policies without Pricing Flexibility category if the assessment of pricing flexibility is not completed.

Group and credit life insurance amounts assumed by a non-affiliated reinsurer should be assigned to the Group & Credit Life with Remaining Rate Terms Over 36 Months category if the assessment of remaining rate terms is not completed.

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LIFE RBC—C-2 MORTALITY RISK

Example 4. Term Life Policies with Pricing Flexibility

1. Are mortality charges on inforce policies changed as part of typical business practices?				- Rates are reviewed annually, the company has precedent for changing inforce mortality charges, and/or the company intends to change mortality charges if emerging experience warrants a change.
	Yes			2. Can pricing be changed within the next 5 years?
				- Current mortality charges on this cohort overall are guaranteed for more than the next 5 years, and/or there are secondary guarantees that will last for more than the next 5 years.
	Large Policy Book			3. Does the structure of pricing flexibility...
Age 65-70	100000			Without terming, level 100
Age 71-75	100000			100% terming, level 100
Age 76-80	100000			100% terming, level 100

1. Are mortality charges on inforce policies changed as part of typical business practices?	No
- There is no historical precedent or intent to change mortality charges on inforce policies.	
Assign to the "Permanent Life Policies without Pricing Flexibility" category.	

1. Are mortality charges on inforce policies changed as part of typical business practices?	Yes
- Rates are reviewed annually, the company has precedent for changing inforce mortality charges, and/or the company intends to change mortality charges if emerging experience warrants a change.	
2. Can pricing be changed within the next 5 years?	No
- Current mortality charges on this cohort overall are guaranteed for more than the next 5 years, and/or there are secondary guarantees that will last for more than the next 5 years.	
Assign to the "Permanent Life Policies without Pricing Flexibility" category.	

Assessing Remaining Rate Terms for Group and Credit Life Policies

6. How should group policies be grouped for assessing remaining rate terms?

For the purposes of assessing the remaining rate terms, policies should be assessed at the group contract level.

7. How should the remaining rate terms be assessed for group and credit life policies?

The remaining rate terms should be assessed based on the premium terms of each group contract and the number of months until expiration or renewal. For group permanent life policies, the evaluation should be completed based on the ability and timeframe for adjusting mortality charges.

Supporting documentation should be maintained in assigning the amounts to each category.

The following examples illustrate the type of analysis that should be completed. To simplify, the examples assume the large size, or over \$25,000 million, factors with a net amount at risk of \$1,000.

Reinsurance Treatment for Direct Insurers and Non-Affiliated Reinsurers

8. How should a direct insurer assess the degree of pricing flexibility on its amounts ceded to non-affiliated reinsurers?

The terms of a direct insurer's reinsurance treaties should be assessed to determine the degree of pricing flexibility a reinsurer has to change rates on

LIFE RBC—C-2 MORTALITY RISK

Individual Life Policies Changing Categories Over Time

10. Can individual life policies change categories over time if the degree of pricing flexibility changes?

Yes, policies are intended to be assessed at each year

LIFE RBC—C-2 MORTALITY RISK

Negatives will flow through the subcategories, subject to an aggregate minimum of \$0 for individual life C-2 and group life C-2.

The following simplified examples illustrate populating the categories depending on the reinsurance used. They are intended to represent the types of categorizations and not the overall aggregate results of a typical company. The examples assume the large size, or over \$25,000 million, factors with a net amount at risk of \$1,000. Amounts input in the LR025 schedule are net of reinsurance, and the size tiering is based on the net of reinsurance amounts entered.

The first step in the process is to categorize gross amounts directly written by the insurer. The second step is to categorize amounts ceded to reinsurers. The third step is to categorize amounts assumed from other

LIFE RBC—C-2 MORTALITY RISK

	Direct Insurer			Reinsurer		Total
	Gross	Ceded	C-2	C-2	C-2	
Life Policies with Pricing Flexibility	\$ -	\$ -	\$ -	\$ -	\$ -	
Term Life Policies without Pricing Flexibility	\$ -	\$ -	\$ -	\$ -	\$ -	
Permanent Life Policies without Pricing Flexibility	\$1,000	\$ (900)	\$ 0.12	\$1.08	\$1.08	
Total	\$1,000	\$ (900)	\$ 0.12	\$1.08	\$1.20	

Total
C-2

Gross Ceded C-2 C-2 C-2

Total
C-2

Gross Ceded C-2 C-2 C-2

Life Policies with Pricing Flexibility \$ - \$ (500) \$ (0.40) \$0.40

Term Life Policies without Pricing Flexibility \$1,000

	Direct Insurer			Reinsurer		Total
	Gross	Ceded	C-2	C-2	C-2	
Life Policies with Pricing Flexibility	\$ -	\$ -	\$ -	\$ -	\$ -	
Term Life Policies without Pricing Flexibility	\$1,000	\$ (500)	\$ 0.43	\$0.43	\$0.43	
Permanent Life Policies without Pricing Flexibility	\$ -	\$ -	\$ -	\$ -	\$ -	
Total	\$1,000	\$ (500)	\$ 0.43	\$0.43	\$0.85	

Total

Gross Ceded C-2

LIFE RBC—C-

LIFE RBC—C-2 MORTALITY RISK