Guaranteed Issue, Simplified Issue and Preneed Update

Joint American Academy of Actuaries Life Experience Committee
and Society of Actuaries Preferred Mortality Oversight Group

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Chairperson

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Guaranteed Issue (GI) - Background

- Data from calendar years 2005 - 2009

- 15 Contributing Companies

- Used aggregate smoking status data only

- Used data under 25 units ($25,000) only

- Data essentially all direct marketed

- Excluded data had very different characteristics

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GI - Background

- Relative to data used
  - 4.8 million polices exposed
  - 220,000 claims
  - 31 million units exposed
  - 1.3 million units in claims
    - 1 unit = $1000 of ultimate death benefit

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GI – Current Status

- **Experience Basic Table created**
  - Five year select and ultimate pattern
  - Actually an anti select pattern in first five years
  - Graduated results for ages 50 to 85
  - To review pattern at young ages – minimal experience
  - To confirm pattern at older ages

- **Table validated against experience data**
  - Count: 98.9% select and ultimate, 102.3% ultimate only
  - Units: 100.2% select and ultimate, 104.5% ultimate only
  - Wide range of results by company

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GI – Current Status, cont'd

- Draft Valuation Table created
  - 2017 CSO loading formula
  - No mortality improvement

- Model Office calculations done
  - Used aggregate data submitted as model office basis
  - (Details available)

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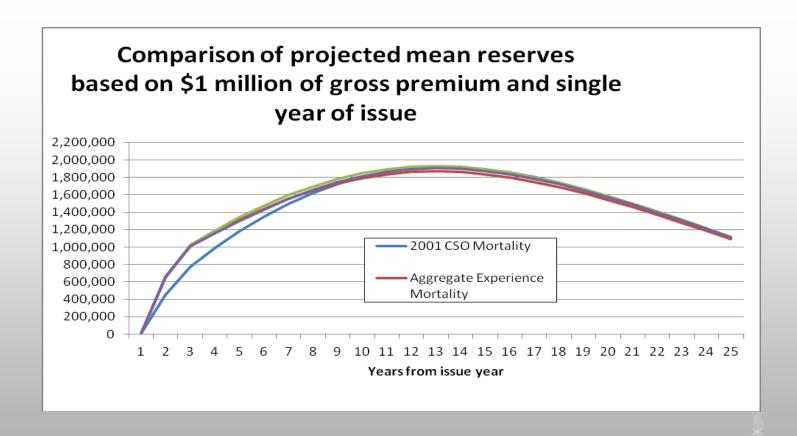*Objective.*
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GI – Model Office Results

- Based on mean reserves:
    - The mean reserves on all tables developed using GI data are higher than those on 2001 CSO through year 9 then very similar
    - The excess in the third year is about 20% of single year of issue annual premium

GI – Model Office Results, cont'd

GI – Model Office Results, cont'd

- The net premiums are higher on the tables developed using GI experience data versus the 2001 CSO

- The mean reserve figures shown do not reflect the deferred premium offset to the mean reserve, which will be greater when net premium are higher

- To evaluate the impact of the higher net premiums, the model office was re-run using midterminal reserves and unearned premiums, assuming all contracts are on monthly mode
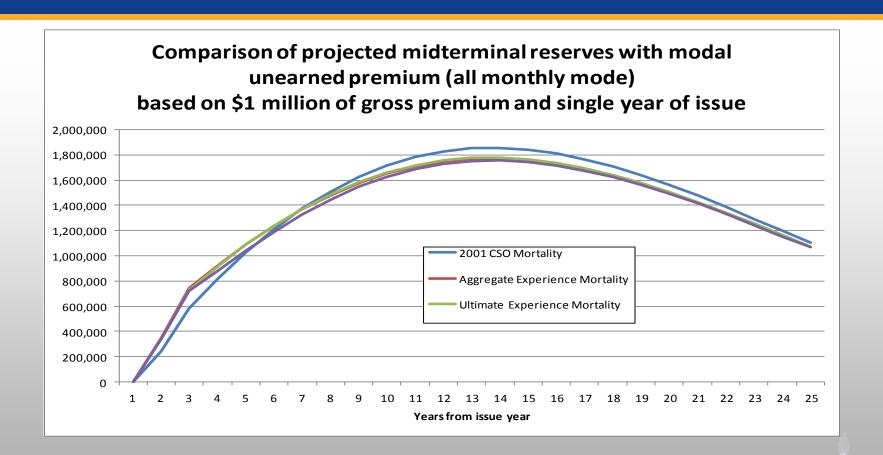
GI – Model Office Results, cont'd

- With change to midterminal reserves and unearned premiums:
  - Overall, reserve levels are lower (to be expected since only 1/24 of annual net premium is included, rather than ½)
  - The mean reserves on all tables developed using GI data are higher than those on 2001 CSO through roughly year 6 then are lower for all years starting in about year 8

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GI - Model Office Results, cont'd

Comparison of projected midterminal reserves with modal unearned premium (all monthly mode) based on $1 million of gross premium and single year of issue

GI – Next Steps

- Examine results by contributing company

- Address younger ages

- Consider older age values

- Consider mortality improvement

- Evaluate loading relative to higher mortality rates

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Simplified Issue (SI) – Background

- Data from calendar years 2005 - 2009

- 30 companies overall
  - 26 companies by smoking status
  - 18 companies by aggregate smoking status

- 18 million policies exposed

- 270,000 claims

- 490 million units exposed

- 2.3 million units in claims

SI – Current Status

- Four data segments
  - Aggregate smoking status (smaller amounts)
  - Non smoker, all
  - Non smoker, $25,000 and over
    - Different mortality pattern at high ages
  - Smoker

SI – Current Status, cont'd

- High level graduations completed
  - Individual attained ages
  - Select in ten year age groups
  - Limited data at longer durations
  - Limited data at younger ages

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SI – Next Steps

- High level expansion to full 25 year S&U table

- Backtest table against contributed data

- Examine areas where more granular graduation can be done

- Develop more detailed experience table

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SI – Considerations

- Significant development in Simplified Issue products and processes since this data collected

- Need industry feedback on best approach to develop appropriate prospective valuation standard as requiring use of SI tables may not be appropriate for certain carriers business as of 1-1-2017

- These current tables could be a benchmark for use in future development

Preneed – Background

- Data from calendar years 2005 - 2009

- 11 contributing companies

- 8.0 million policies exposed

- 640,000 claims

- 35 million units exposed

- 3.0 million units in claims

- Single premium about 60% of exposure and 75% of deaths

Preneed – Current Status

- Three product segments
    - Single premium
    - Multi pay, modified benefit
    - Multi pay, level benefit

- Observe early duration anti selection in first two forms

- Bulk of experience in Single Premium form

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Preneed – Current Status, cont'd

- High level graduations completed
  - Individual attained ages
  - Select in ten year age groups
  - Data more limited for multi pay plans

- Data available to highest ages, 100+
  - Possible unreported deaths , however

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Preneed – Current Status, cont'd

- Expansion of select data to all ages occurring

- Decision being made on anti select pattern and overall select period

- Current thinking is 7 and 15 years

- Processing of data against prior Preneed Table occurring, S&U and Ultimate only

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Preneed – Next Steps

- Develop anti select table for single premium product

- Use that table for modified benefit product

- Modify traditional life insurance pattern for level benefit product

- Proceed with valuation suitable table as with Guaranteed Issue

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For all tables

- Need to consider approach to loading
  - GI just used 2017 loading for now
  - Coverage level versus percentage load

- GI/SI products will likely meet the deterministic exclusion test; however, if not, and required to calculate a deterministic reserve
  - PBR margins may need to be reconsidered as designed specifically for the underlying VBT/fully underwritten business and alignment with CSO loading for lowest credibility

- Current NPR lapse rates may not be appropriate for the GI/SI business – preneed already excluded

Accelerated Underwriting

- Emerging trend in underwriting is accelerated underwriting
  - May look like expanded simplified issue or align more closely with fully underwritten business
  - Often modeled using predictive modeling and complex algorithms
  - May include Rx data checks, credit scoring, electronic lab data, electron health record information, financial underwriting information, etc.
  - In some cases, may exclude fluids (blood/urine)

Accelerated Underwriting

- Experience mortality will not emerge for several years however:
  - Will vary depending on the sophistication of the algorithm(s) used but could get closer to fully underwritten mortality, even without fluids
  - Many companies view their algorithms as proprietary

- Current data collection requirements under VM-51 not supportive of this business – different data needs to be collected, including more understanding of algorithms

- Request charge be assigned to develop the data requirements now so that in place and companies know to capture in order to provide and amend VM-51 to include