

INSURANCE

DEPARTMENT OF BANKING AND INSURANCE

DIVISION OF INSURANCE

Actuarial Services

Annuity Mortality Tables

Proposed Amendments: N.J.A.C. 11:4-26.1, 26.2, 26.3, and 26.5

Proposed New Rule: N.J.A.C. 11:4-26.4

Authorized By: Kenneth E. Kobylowski, Commissioner, Department of Banking and Insurance.

Authority: N.J.S.A. 17:1-8.1, 17:1-15.e, and 17B:19-8.

Calendar Reference: See Summary below for explanation of exception to calendar requirement.

Proposal Number: PRN 2014-116.

Submit comments by September 5, 2014, to:

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The agency proposal follows:

Summary

The Standard Valuation Law, N.J.S.A. 17B:19-8, sets forth the basis for the annual valuation of the reserve liabilities of life insurance policies. Pursuant to N.J.S.A. 17B:19-8.a(i), the Commissioner of Banking and Insurance (Commissioner) may promulgate a mortality table adopted by the National Association of Insurance Commissioners (NAIC) for use in determining the minimum standard valuation. The mortality tables are used by insurers to establish reserve funds for annuity contract payouts.

In December 2012, the NAIC adopted a revised Model Rule for Recognizing a New Annuity Mortality Table for Use in Determining Reserve Liabilities for Annuities (NAIC Model 821). The model adds a 2012 Individual Annuity Reserving (2012 IAR) table to the current list of recognized mortality tables; adds definitions for "period table," "generational mortality table," "2012 IAR Mortality Table," "2012 IAM Period Table," and "Projection Scale G2"; and establishes when and how the 2012 IAR Mortality Table may be used.

Because mortality rates have been decreasing, an updated mortality table is necessary to reflect the higher reserves needed by insurers to satisfy new annuity contract payout obligations. Accordingly, the Department is proposing amendments to its Annuity Mortality Tables rules to bring them into conformity with NAIC Model 821.

N.J.A.C. 11:4-26.1 is amended to include the 2012 IAR Table as a recognized mortality table.

N.J.A.C. 11:4-26.2 is amended to include new definitions of "generational mortality table," "period table," "Projection Scale G2 (Scale G2)," "2012 IAR Table," and "2012 Individual Annuity Mortality Period Life (2012 IAM Period) Table."

N.J.A.C. 11:4-26.3 is amended to add language that the 2012 IAR Mortality Table shall be used for determining the minimum standard of valuation for any individual annuity or pure endowment contract issued on or after January 1, 2015, with the following exception: the 1983 Table "a" without projection is to be used for determining the minimum standard of valuation for an individual annuity or pure endowment contract issued on or after January 1, 2001, solely when the contract is based on life contingencies and is issued to fund periodic benefits arising from settlements of various forms of claims pertaining to court settlements or out of court settlements from tort actions, settlements involving similar actions such as worker's compensation claims, or settlements of long term disability claims where a temporary or life annuity has been used in lieu of continuing disability payments.

A new rule, N.J.A.C. 11:4-26.4, Application of the 2012 IAR Mortality Table, is being proposed. The new rule sets forth a new mortality rate calculation to be applied when using the 2012 IAR Mortality Table. Existing N.J.A.C. 11:4-26.4, 26.5, and 26.6 are being recodified as N.J.A.C. 11:4-26.5, 26.6, and 26.7, respectively. Also, the Department is proposing a correction to existing N.J.A.C. 11:4-26.5(a) by inserting a negative sign in the calculation. The calculation, as proposed and adopted effective January 2, 2001, is " $q_x^{1994+n} = q_x^{1994} (1 - AA_x)^n$." However, a typographic error in the January 2, 2001, Code update omitted the negative sign, and that error has persisted in the Code since.

A 60-day comment period is provided for this notice of proposal, and, therefore, pursuant to N.J.A.C. 1:30-3.3(a)5, the proposal is not subject to the provisions of N.J.A.C. 1:30-3.1 and 3.2 governing rulemaking calendars.

Social Impact

The proposed amendments will have a positive impact on consumers who purchase annuities. The updated mortality table will increase insurers' minimum reserve liabilities, thereby strengthening their solvency and better ensuring their ability to pay the additional benefits resulting from the improved life expectancy of annuitants.

Economic Impact

The proposed amendments may have an impact on insurers issuing annuities. Insurers will be required to increase their reserves to ensure their ability to pay out additional annuity benefits over the anticipated longer lives of annuitants, and may wish to upgrade information technology and actuarial services. However, the unfavorable impact is minimized by requiring the table only for new contracts issued on January 1, 2015, and later. The enhanced ability of insurers to pay their long-term annuity obligations will favorably impact the financial conditions of the annuitants to whom payments will be made.

Federal Standards Statement

A Federal standards analysis is not required because the proposed amendments are not subject to any Federal standards or requirements.

Jobs Impact

The Department does not believe that the proposed amendments will result in the creation or loss of any jobs in the State.

Agriculture Industry Impact

The Department does not believe that the proposed amendments will have any impact on the agriculture industry in the State.

Regulatory Flexibility Analysis

There may be some insurers required to comply with these proposed amendments that are small businesses as that term is defined in the Regulatory Flexibility Act at N.J.S.A. 52:14B-16 et seq. As stated above, insurers will be required to increase their reserves to better ensure their ability to pay additional benefits resulting from the improved life expectancy of annuitants. Additionally, insurers may choose to upgrade information technology and actuarial services. Nevertheless, the Department believes that small business insurers cannot be exempt from the proposed amendments. All insurers must maintain adequate reserve funds for annuity contract payouts, and no exceptions can be made for small business insurers. However, it is unlikely that small business insurers will find it necessary to hire additional employees or incur other costs in order to comply with the proposed amendments. Additionally, the rules help to minimize any adverse economic impact on small business insurers by requiring use of the new mortality table only for new contracts issued on January 1, 2015, and later.

Housing Affordability Impact Analysis

The proposed amendments will not have an impact on housing affordability because the proposed amendments address revisions to the Department's Annuity Mortality Tables rules to reflect an updated annuity mortality table adopted by the NAIC.

Smart Growth Development Impact Analysis

The Department believes that there is no likelihood that these proposed amendments would evoke a change in the housing production in Planning Areas 1 and 2, or within the designated centers, under the State Development and Redevelopment Plan in New Jersey

because the proposed amendments address revisions to the Department's Annuity Mortality Tables rules to reflect an updated annuity mortality table adopted by the NAIC.

Full text of the proposal follows (additions indicated in boldface **thus**; deletions indicated in brackets [thus]):

11:4-26.1 Purpose

The purpose of this subchapter is to recognize the following mortality tables: the 1983 Table "a", the 1983 GAM Table, the Annuity 2000 Mortality Table, **the 2012 IAR Table**, and the 1994 GAR Table, for use in determining the minimum standard of valuation for annuity and pure endowment contracts.

11:4-26.2 Definitions

The following words and terms, when used in this subchapter, have the following meanings, unless the context clearly indicates otherwise.

...

"Generational mortality table" means a mortality table containing a set of mortality rates that decrease for a given age from one year to the next based on a combination of a period table and a projection scale containing rates of mortality improvement.

...

"Period table" means a table of mortality rates applicable to a given calendar year (the period).

"Projection Scale G2 (Scale G2)" means a table of annual rates, $G2_x$, of mortality improvement by age for projecting future mortality rates beyond calendar

year 2012. This table was developed by the Society of Actuaries Committee on Life Insurance Research and adopted as a recognized mortality table for annuities in December 2012 by the National Association of Insurance Commissioners (see *2012-1 Proceedings of the NAIC*, pages 33-40).

“2012 IAR Table” means that generational mortality table developed by the Society of Actuaries Committee on Life Insurance Research and containing rates, q_x^{2012+n} , derived from a combination of the 2012 IAM Period Table and Projection Scale G2, using the methodology stated in N.J.A.C. 11:4-26.4. This table was adopted as a recognized mortality table for annuities in December 2012 by the National Association of Insurance Commissioners (see *2012-1 Proceedings of the NAIC*, pages 33-40).

“2012 Individual Annuity Mortality Period Life (2012 IAM Period) Table” means the period table containing loaded mortality rates for calendar year 2012. This table contains rates, q_x^{2012} , developed by the Society of Actuaries Committee on Life Insurance Research, and was adopted as a recognized mortality table for annuities in December 2012 by the National Association of Insurance Commissioners (see *2012-1 Proceedings of the NAIC*, pages 33-40).

11:4-26.3 Individual annuity or pure endowment contracts

(a) – (b) (No change.)

(c) Except as provided in [(d)] (e) below, the Annuity 2000 Mortality Table shall be used for determining the minimum standard of valuation for any individual annuity or pure endowment contract issued on or after January 1, 2001.

(d) Except as provided in (e) below, the 2012 IAR Mortality Table shall be used for determining the minimum standard of valuation for any individual annuity or pure endowment contract issued on or after January 1, 2015.

[(d)] (e) (No change in text.)

11:4-26.4 Application of the 2012 IAR Mortality Table

(a) In using the 2012 IAR Mortality Table, the mortality rate for a person age x in year $(2012 + n)$ is calculated as follows:

$$q_x^{2012+n} = q_x^{2012} (1 - G2_x)^n.$$

The resulting q_x^{2012+n} shall be rounded to three decimal places per 1,000 (for example, 0.741 deaths per 1,000). Also, the rounding shall occur according to the formula above, starting at the 2012 period table rate.

For example, for a male age 30, $q_x^{2012} = 0.741$.

$$q_x^{2013} = 0.741 * (1 - 0.010) ^ 1 = 0.73359, \text{ which is rounded to } 0.734.$$

$$q_x^{2014} = 0.741 * (1 - 0.010) ^ 2 = 0.7262541, \text{ which is rounded to } 0.726.$$

A method leading to incorrect rounding would be to calculate q_x^{2014} as $q_x^{2013} * (1 - 0.010)$, or $0.734 * 0.99 = 0.727$. It is incorrect to use the already rounded q_x^{2013} to calculate q_x^{2014} .

11:4-[26.4]26.5 (No change in text.)

11.4-[26.5]26.6 Application of the 1994 GAR Table

(a) In using the 1994 GAR Table, the mortality rate for a person age x in year $(1994+n)$ is calculated as follows:

$$q_x^{1994 + n} = q_x^{1994} [(1AA_x)^n] (1 - AA_x)^n$$

where the q_x^{1994} and AA_x s are as specified in the 1994 GAR Table.

11:4-[26.6]**26.7** (No change in text.)