Bruce and Bruce Company

CONSULTING ACTUARIES

NEWSLETTER

June 2017 Issue

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New Staff

Bruce and Bruce Company is pleased to announce that two new employees have joined our staff this year!

Mark Buehrer
Senior Actuary

Mark is a Fellow of the Society of Actuaries (FSA) and a Member of the Academy of Actuaries (MAAA). He has been a member of the Society of Actuaries since 1995. Mark has an extensive background in all aspects of life insurance and annuity valuations, financial statements preparations including expertise in reinsurance, pricing, economic capital, investments, risk management and many other aspects of the life insurance and annuity business.

Before joining Bruce and Bruce Company, Mark worked for an insurance company, consulting firm, and a major reinsurance company.

Silvio A. Rodia
Vice President

Silvio has over 16 years of experience with a former actuarial consulting firm, Heidorn Consulting, Inc. He has extensive knowledge in working with fraternal benefit societies, home office operations, valuations, cash flow testing and modeling, statement preparations and forms filing. Silvio has a vast knowledge of computers and computer programming.

Silvio has a bachelor's degree from the University of Illinois at Chicago in Computer Engineering and a master's degree from DePaul University in Applied Mathematics with a concentration in Actuarial Science. In addition, he is currently sitting for actuarial exams to obtain his associate level designation from the Society of Actuaries.

Staff Changes

Jerry Alexander has retired effective June 1, 2017. Jerry had been a continued fixture at Bruce and Bruce Company for 35 years. We wish him well in his retirement and all the golf he can play. Please contact Silvio A. Rodia (srodia@babco.us.com) for future assistance.

Caroline Choi left Bruce and Bruce Company in September of 2016 to work for a company closer to her home. We wish Caroline continued success as she continues to advance her actuarial career and goals.

Principle Based Reserves (PBR)

Reminder: The Life Principle Based Reserves (PBR) has passed and is effective for 2017. However, there is a Companywide Exemption which currently has the following exemption criterion: less than $300 million in life premiums (Group, less than $600 million) written per year – **AND -** a Total Adjusted Capital of at least 450% of Authorized Control Level RBC and an unqualified actuarial opinion – **AND -** no UL with Secondary Guarantee (ULSG) policies with material secondary guarantees. There is a three year phase in period, starting in 2017, when its use is optional. To date, there are multiple modifications to this regulation that are still being decided on which would amend exemption statuses and additional items. We will contact clients as PBR affects them.

2017 CSO Mortality Tables

It has been 16 years since a consensus valuation table was developed for US Life Insurance purposes; namely, the 2017 CSO Table was developed to replace the 2001 CSO Table. Overall, there have been advancements in medical science and general improvement in population mortality. There are a number of updates that come with the introduction of this new table. A variety of tables (options) are available with the 2017 CSO Table to make way, in part, for PBR and the new valuation standard.

The transition to this new 2017 CSO Table is mandatory; however, there is a three year phase in period starting in 2017, and the table will be mandated for new policies as of January 1, 2020. This phase in period will allow societies and companies to revisit their portfolio of products, update their pricing assumptions on their existing products, add any new products to their portfolio, set desired dividend levels and premiums, and set the appropriate reserves. Since new policy form filings will be required and it is a large task, it will necessitate working in cooperation with your marketing, management, and actuarial divisions of your company to make this transition seamless.

The management decision is how soon one would like to make the move to the new 2017 CSO Table. Bruce and Bruce Company's staff is prepared to assist companies (commercial and mutual) and fraternal benefit societies, to make the move during the next two years. We have the staff expertise, we have the tools, and we know the status of client products. Please contact us if you'd like to discuss the information required to make this transition.

IRS to Mandate Pension Plan Mortality Tables Change in 2018

David Chan EA, ASA, MAAA, FCA – Consulting Actuary

Reflecting on the improvement of longevity and after working with the Society of Actuaries for several years and after receiving feedback from private sectors, the IRS recently announced that in 2018 all qualified defined benefit pension plans must use the new proposed mortality tables for both pension plan liability calculation and cost determination. Without getting into technicalities, most pension plans, as a result of the mandated change of mortality tables for 2018, will increase pension liability by about 3% to 8%, assuming the use of a 6% interest rate for comparison purposes. If a plan has a significant concentration of older retirees, the increase will be greater. For a pension plan that will continue to accept new participants or that is accruing new benefits, the future cost will also increase at about the same rate compared to not having the new tables.

Specific Impacts on Pension Plans are listed below.

1. Impact on the Annual Funding Target Attainment Percentage (AFTAP):

   Each year the Enrolled Actuary for the plan must certify the AFTAP does the following:
   A) If it is under 80%, any amendment to increase benefits is forbidden.
   B) If it is under 60%, future benefit accrual is stopped and lump sum distribution is not allowed.
   C) If it is between 60% and 80%, lump sum distributions will be partially allowed.

   Therefore, employer plan sponsors should consult their Enrolled Actuaries to either prefund any necessary additional cost or prepare to notify participants about benefit restrictions if AFTAP is falling below 80% or 60%.

   All Bruce and Bruce Company fraternal pension clients are funded near or over 100% AFTAP, so we do not expect this situation to occur unless there is a large drop in investment returns or other unexpected events.

2. Impact on PBGC Premiums:

   There are two parts of the premiums, fixed and variable. Fixed rate is on a per participant basis and will not be affected by the new mortality table. The variable portion is based on per $1,000 unfunded vested liability. For 2018, the estimated variable rate is $38 per $1,000 vested unfunded obligation but not to exceed $517 maximum cap per participant. If a pension plan is currently underfunded on PBGC assumption basis, by changing to a new longevity improved mortality table, the unfunded gap will be widened and the variable premiums will expect to increase unless an increase of contribution is made to offset or to exceed the change in benefit obligation.

3. Lump Sum Option:

   For pension plans that provide a lump sum option, it should be expected that the benefit will be larger than before the new mandated mortality tables are implemented.

Department of Labor (DOL) Fiduciary Rule

The proposed rule was delayed on April 10, 2017. In a somewhat surprising move, the DOL did not delay any further and the Fiduciary Rule became effective June 9, 2017. While this rule will be mandated for 2017 and beyond, it is our understanding that the DOL and the IRS will not be enforcing the rule. However, there is an expectation that companies, agencies, etc. will make an effort to comply with this Fiduciary Rule by 2018. Therefore, from June 9, 2017 to January 1, 2018 will be a Transition Period.

Many individuals, companies, agencies, etc. are affected by this rule. The basic assumption made is that the agent will become a Fiduciary when making recommendations to a prospective annuitant/insured on Qualified Plans where compensation is involved. You must abide by a set of rules, standards and act in your client's best interest. A company may take two avenues to comply: the Best Interest Contract (BIC) exemption route or comply with the Prohibited Transaction Exemption (PTE) 84-24 rule. Please contact your compliance officers and/or lawyers to make sure you are currently in compliance with this wide-range rule.

Interest Rates

Interest rates have been up considerably from last year and while this would seem to indicate better results in cash flow projections, the impact will not be uniform across all societies and companies. In general, this rise in rates should have a positive effect on Book Value results and a negative effect on Market Value results for cash flow testing.

The Single Premium Immediate Annuity (SPIA) Projected Valuation Interest Rate for 2017 is at 3.75% currently, compared to 4.00% in 2016. Single Premium Deferred Annuity (SPDA) and Flexible Premium Deferred Annuity (FPDA) 2017 Projected Maximum Interest Rates are at 3.50%. The Life Insurance Valuation Rate remains at 3.50% and the Cash Value Interest Rate remains at 4.50%. The aforementioned rates are expected to remain the same and if there are any changes, they would be minimal.

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Maximum Valuation Interest Rates for Income Annuities

The industry is modernizing the methodology for interest rates on income annuities starting on January 1, 2018. This methodology is expected to be a bit more sensitive to the current economic environment. The desire is to establish a more appropriate level of reserves for these types of products.