KATHY HOCHUL
Governor

ADRIENNE A. HARRIS
Superintendent

March 26, 2025

To Governor Kathy Hochul and the New York State Legislature:

Pursuant to the requirements of Section 2 of Chapter 394 of the Laws of 2018, I hereby submit a report detailing the impact of the implementation of the National Association of Insurance Commissioners (NAIC) Valuation Manual for determining the amount of required reserves for individual and group life insurance policies and annuity contracts on the New York State life insurance industry and consumers.

Respectfully submitted,

Adrienne A. Harris
Superintendent of Financial Services

Principle-Based Reserves

Impact of Principle-Based Reserve Standards on New York Life Insurers

March 26, 2025

Background

Pursuant to Section 4217 of the New York Insurance Law ("NYIL"), companies licensed to write life insurance in New York ("insurers") are required to maintain reserves for all outstanding insurance contracts to pay future benefits and expenses. Historically, NYIL § 4217 prescribed the methodology and assumptions used to calculate such reserve liabilities. In 2009, the National Association of Insurance Commissioners ("NAIC") adopted a new method for determining life insurance reserves known as principle-based reserving ("PBR"). PBR allows insurers to incorporate assumptions based on their own experiences into the calculation of reserves instead of using prescribed assumptions.

In 2018, the NYIL was amended by Section 1 of Chapter 394 of the Laws of 2018 to set new minimum standards for calculating reserves as the greater of the PBR standards set forth in a valuation manual adopted by the NAIC ("Valuation Manual") and formulaic floors prescribed by the Department of Financial Services ("DFS") through regulation. The Valuation Manual and the formulaic floors prescribed by New York in 11 NYCRR 103 (Insurance Regulation 213) ("Regulation 213") (together with the Valuation Manual, "the New York PBR standards") became effective in New York as of December 31, 2019.

New York set formulaic floors equal to 100% of the previous standards for all individual and group life and annuity contracts except term life insurance, payout annuity contracts, and variable annuities with guaranteed minimum benefits. The formulaic floor for term life insurance is equal to 70% of the minimum reserve standards that were effective prior to the adoption of the New York PBR standards. For payout annuities and variable annuities with guaranteed minimum benefits, the formulaic floor is based on a modification of the prior reserve standards which resulted in an overall increase in reserves that insurers are required to hold for these products.

The New York PBR standards apply to all registered index-linked annuities ("RILAs'") and variable annuities with guaranteed minimum benefits regardless of when issued. For all other annuity contracts and life insurance policies, the New York PBR standards apply only to contracts and policies issued on or after January 1, 2019.

The minimum reserve standards required by the New York PBR standards are substantially the same as those required prior to the adoption of the new standards with the exception of standards pertaining to term life insurance, universal life with secondary guarantees ("ULSG"), payout annuities, RILAs and variable annuities with guaranteed minimum benefits.

Therefore, the only blocks of business where there are material differences between the reserves required under the previous standards and those required under the New York PBR standards are term life insurance, ULSG, payout annuities issued on or after January 1, 2019, and all RILAs and variable annuities with guaranteed minimum benefits regardless of when issued (collectively, "Applicable Business"). Term life insurance is the only product where reserves decreased under the new standards.

Pursuant to Section 2 of Chapter 394 of the Laws of 2018, DFS is required to study the impact of the implementation of the Valuation Manual and any deviations DFS has prescribed through regulation on the New York State life insurance industry and consumers for individual and group life insurance policies and annuity contracts. The statute further requires DFS to submit a report in the second, fifth, and tenth years after the operative date of the Valuation Manual reflecting these findings to the governor, temporary president of the senate, and speaker of the assembly.

This report reflects the impact of the implementation of the Valuation Manual and Regulation 213 as of December 31, 2023, which is the fifth year after the operative date of the Valuation Manual in New York State.

Executive Summary

As expected, the aggregate impact on the reserves maintained by New York life insurers due to the adoption of the New York PBR standards was not material as of year-end 2023 primarily because a majority of those reserves are not subject to the new standards. During the development of PBR at the NAIC, it was decided that the PBR standards for life insurance would not apply to business currently in force; they would apply only to new business. New York life insurers included in this study reported aggregate reserves for life and annuity contracts of approximately $1.9 trillion as of December 31, 2023, with approximately $161 billion, or 8.7%, subject to the new standards.

In addition, no material changes were noted with respect to risk-based capital ("RBC") requirements, pricing, or the use of captives. Thus far, the aggregate impact of the implementation of the new standards on New York life insurers and consumers has not been material.

The data in this report is based on information received from 68 companies licensed to write life insurance in New York. The remaining 84 companies did not have any Applicable Business because they received an exemption, do not write term life insurance, ULSG, or payout annuities, or do not have any in-force RILAs or variable annuities with guaranteed minimum benefits.

The conclusions in this report are dependent on the accuracy of the data provided by the insurers. DFS reviewed the data provided for reasonableness where possible. The data from three companies was not included as DFS could not verify the accuracy. The impact of the non-inclusion of this data is *de minimis* and does not affect DFS's conclusions. Twenty of the insurers indicated that the pre-PBR variable annuity reserve amounts are based on estimates as the software or models needed to calculate the actual values were no longer available.

Insurers were asked to provide: (i) the reserves calculated under the previous standards; (ii) the reserves calculated pursuant to the Regulation 213 formulaic floors; and (iii) the reserves calculated under the Valuation Manual. In addition, DFS asked insurers to provide information related to any changes in RBC requirements, pricing, consumers, and the use of captive reinsurers since the implementation of Valuation Manual.

Findings

Table 1 shows the reserves under the pre-PBR standards, the Valuation Manual, the formulaic floors within Regulation 213, and the total Regulation 213 reserves, as well as the changes for each against the previous standards. The aggregate impact on the reserves for the reporting insurers was an increase of approximately $3.3 billion, or 0.2%, as of December 31, 2023.

Line of Business	Previous Standards	Valuation Manual[1]	% Change	Formulaic Floors within Reg. 213	% Change	Total Reg. 213[2]	% Change
Term 2019-2023 Issue Years	$3,979	$1,346	-66%	$2,792	-30%	$2,809	-29%
ULSG 2019 -2023 Issue Years	$5,293	$4,599	-13%	$5,309	0.3%	$5,325	0.6%
Payout Annuities 2019-2023 Issue Years	$137,091	$137,728	0.5%	$137,754	0.5%	$138,217	0.8%
Variable Annuities & RILAs All Issue Years	$14,029	$6,695	-52%	$14,660	4%	$14,718	5%
Aggregate of Above	$160,391	$150,370	-6%	$160,515	0.08%	$161,068	0.4%
Aggregate All Lines of Business All Issue Years	$1,918,467	$1,909,726	-0.5%	$1,918,532	0%	$1,921,802	0.2%

This $3.1 billion increase in reserves from the previous standards is due to the impact of the adoption of the New York PBR standards on term life insurance, ULSG policies, and payout annuities issued in 2019 through 2023, and all RILAs and variable annuities with guaranteed minimum benefits regardless of when issued. The new standards do not apply to approximately $1.76 trillion of other life and annuity reserves.

For term life insurance policies issued during 2019 through 2023, the minimum standard required by Regulation 213 is the greater of those reserves required pursuant to the Valuation Manual and 70% of the pre-PBR standards. Of the 35 insurers with term life insurance business issued in 2019 through 2023, three indicated that the Valuation Manual reserves exceeded the formulaic floor in Regulation 213.

In aggregate, the reserves as calculated pursuant to Regulation 213 for term life insurance policies issued during 2019 through 2023 decreased by approximately $1.2 billion, or 29%.

[1] This column reflects what minimum reserve values would have been under the NAIC Valuation Manual if New York did not adopt formulaic floors.
[2] This column reflects the reserves that insurers were actually required to hold which is the greater of the standards set forth in the Valuation Manual and formulaic floors that New York adopted.

DFS's findings for each of the items required to be studied pursuant to Section 2 of Chapter 394 of the Laws of 2018 are set forth below:

1. **The percentage change between the reserves required under New York State law prior to the implementation of the Valuation Manual and the reserves required pursuant to such manual for individual and group life insurance policies and annuity contracts**

If New York had not adopted formulaic floors, the overall impact of the adoption of the Valuation Manual would have been a reduction in reserves of approximately 0.5%.

The overall impact of implementing New York's PBR standards was an increase in reserves of approximately 0.2%.

Table 2. Change in reserves from the previous standards to that required by the Valuation Manual	
Term life policies issued from 2019 to 2023	-66%
ULSG policies issued from 2019 to 2023	-13%
Payout Annuities issued from 2019 to 2023	0.5%
Variable Annuities and RILAs issued in any year	-52%
Aggregate impact for just those policies included above	6%
Aggregate impact for all insurance and annuity policies regardless of when issued	-0.5%

The percentages shown in Table 2 above are within the Department's expectation.

For term life insurance business subject to the Valuation Manual (policies issued from 2019 through 2023), reserves decreased by approximately 66%. However, Regulation 213 included a minimum reserve floor of 70% of the previous standards, which effectively limited the impact in New York to a maximum reduction of 30%.

Similarly, for ULSG business subject to the Valuation Manual (policies issued from 2019 through 2023), the reserves would have decreased approximately 13%. However, Regulation 213 included a minimum reserve floor of 100% of the previous standards, which removed any reduction in the ULSG reserves in New York.

For Variable Annuities and RILAs, the reserves would have decreased by approximately 52%. However, Regulation 213 included a minimum reserve floor which limited the reduction in the reserves for Variable Annuities and RILAs.

2. **The percentage change between premiums prior to the implementation of the Valuation Manual and premiums after the implementation of such manual in the individual and group life insurance markets and annuity market**

Because the Valuation Manual was never implemented without formulaic floors, DFS was unable to determine the percentage change between premiums prior to the implementation of the Valuation Manual and premiums after the implementation of such Manual. However, no material changes in pricing were reported because of the implementation of New York's PBR standards.

3. **Identification of the redundancies eliminated from the reserves for each product subject to the Valuation Manual**

Prior to adopting PBR in New York, DFS studied potential redundancies (i.e., reserves in excess of what is prudent) in the reserves for term life insurance and ULSG. The study indicated that the reserves for term life insurance exceeded the amount needed to fund future benefits under moderately adverse conditions by approximately 30%. As such, a formulaic floor included within Regulation 213 was set to equal 70% of the standards in place prior to the operative date of the Valuation Manual; the aggregate term life reserves decreased by approximately $1.2 billion as of year-end 2023 pursuant to Regulation 213. No reserve redundancies were noted for ULSG.

4. **The impact on the use of captive insurance companies by the life insurance industry to reinsure existing policies and contracts**

None of the insurers reported any change in the use of captive insurers. DFS has had a moratorium on captive transactions since 2013.

5. **The changes to DFS's oversight of insurance companies that have occurred as a result of implementing the Valuation Manual**

As a result of implementing the New York PBR standards, companies are required to provide additional documentation in support of their reserve calculations. These reports are reviewed as part of company examinations. During years when an insurer is not examined, DFS has relied on the NAIC and/or other states in reviewing the PBR filings.

6. **The impact on risk-based capital requirements**

Any changes to RBC requirements are due to changes in the methodology adopted by the NAIC. The RBC requirements in New York are calculated based on the RBC methodology adopted by the NAIC. The NAIC methodology was revised as a result of the adoption of PBR for variable annuities. Although NYIL Section 4217 and Regulation 213 do not include any direct RBC requirements, parts of the RBC calculations are dependent upon the reserve values. In addition, the final RBC ratio is the company's adjusted capital, which is also impacted by the level of reserves, divided by the RBC.

None of the insurers reported a material impact on RBC as of December 31, 2023.

7. **The impact on consumers including cost savings, cost increases, any loss of accrued interest on policies and contracts, any loss of existing consumer protections, and the impact of replacement products**

None of the insurers reported any impact on consumers.

8. **An analysis of any regulations promulgated by DFS that allow deviations from the reserve standards, valuation methods, assumptions, and related requirements in the Valuation Manual, including (1) a summary of such deviations, (2) whether such deviations are based upon a percentage of the reserves held for the policies and contracts subject to subsection (g) of section 4217 of the insurance law prior to the operative date of the Valuation Manual, and (3) the impact of such deviations on reserves for impacted insurance and annuity products including a comparison of the differences between reserves for impacted insurance and annuity products required prior to the implementation of the Valuation Manual and reserves required for impacted insurance and annuity products as a result of such deviations from the Valuation Manual**

The minimum standards required by Regulation 213 are the greater of those reserves required by the Valuation Manual with no deviations and the formulaic floor prescribed by New York. The regulation includes a specific formulaic floor for term life insurance, payout annuities, and variable annuities. For all other products, the formulaic floor is 100% of the minimum standards prior to the operative date of the Valuation Manual. The formulaic floor for term life insurance is 70% of the minimum standards prior to the operative date of the Valuation Manual.

The floor for payout annuities is based on a slightly revised methodology for determining the discount rate and the floor for variable annuities is based on the pre- PBR methodology with certain revisions.

Overall, as a result of these deviations, the life and annuity reserves for subject insurers increased by approximately $10.7 billion (or 0.6% of aggregate reserves) above the reserves that would have been required pursuant to the Valuation Manual.