Summer 2025 Newsletter

Bruce & Bruce provides a wide range of actuarial and consulting services to help organizations reach their financial goals and risk objectives through the development of customized and cost-effective solutions.

Trending Topics in the Insurance Industry

Are You Forecasting Your Business?

This article will provide the reader with the benefits of forecasting emerging financial results for insurance companies, demonstrating it to be a key part of an organization's overall business management framework. Additionally, we will delve into how a company may effectively approach this effort by leveraging already existing Actuarial Models.

I. The Benefits of Forecasting for a Life Insurance Company

In the dynamic world of life insurance, forecasting plays a pivotal role in ensuring the stability and growth of a company. By leveraging advanced data analytics and predictive modeling, life insurance companies can navigate uncertainties and make informed decisions. Below are some key benefits of forecasting for a life insurance company:

1. Risk Management

Forecasting helps in identifying potential risks and uncertainties that could impact the business. By analyzing historical data and market trends, companies can predict future events and prepare accordingly. This proactive approach allows insurers to mitigate risks, set appropriate premiums, and maintain financial stability.

2. Improved Customer Experience

Accurate forecasting enables life insurance companies to anticipate customer needs and preferences. By understanding demographic trends and customer behavior, insurers can tailor their products and services to meet the evolving demands of their clients. This personalized approach enhances customer satisfaction and loyalty.

3. Optimized Resource Allocation

Forecasting helps with efficient resource allocation by predicting future demand for insurance products. Companies can allocate their resources, such as marketing budgets and human capital, more effectively. This ensures that the right products are promoted to the right audience at the right time, maximizing sales and profitability.

Are Your Forecasting Your Business? (continued)

4. Regulatory Compliance

Life insurance companies operate in a highly regulated environment. Forecasting aids in ensuring compliance with regulatory requirements by predicting impacts of changes in laws and regulations. Companies can stay ahead of compliance issues, avoid penalties, and maintain their reputation in the market.

5. Financial Planning and Budgeting

Accurate forecasting is essential for effective financial planning and budgeting. By predicting future revenue streams and expenses, life insurance companies can create realistic budgets and financial plans. This helps in maintaining liquidity, managing cash flow, and achieving long-term financial goals.

6. Competitive Advantage

In a competitive market, forecasting provides a strategic edge. Companies that can accurately predict market trends and customer behavior are better positioned to innovate and adapt. This agility allows them to stay ahead of competitors and capture a larger market share.

7. Enhanced Decision-Making

Forecasting provides valuable insights that support strategic decision-making. By analyzing data and trends, executives can make informed decisions about product development, market expansion, and investment opportunities. This data-driven approach minimizes uncertainty and enhances the overall decision-making process.

Conclusion

Forecasting is an indispensable tool for life insurance companies. It not only helps in managing risks and ensuring regulatory compliance but also enhances customer experience and drives financial success. By embracing forecasting techniques, life insurance companies can navigate the complexities of the market and secure a prosperous future.

II. Leveraging Cash Flow Testing and New Pricing Models to Build Forecasts

In the life insurance industry, accurate forecasting is crucial for maintaining financial stability and ensuring long-term success. Two powerful techniques that can significantly enhance forecasting capabilities are cash flow testing and the implementation of new pricing models. Here's how these methods can be leveraged:

Cash Flow Testing

1. What is Cash Flow Testing?

Cash flow testing involves analyzing the inflows and outflows of cash over a specific period to predict future liquidity needs. This technique helps life insurance companies assess their ability to meet financial obligations under various scenarios.

2. Benefits of Cash Flow Testing

- Risk Management: By simulating different economic conditions and stress scenarios, companies can identify potential liquidity shortfalls and take proactive measures to mitigate risks.
- Regulatory Compliance: Cash flow testing ensures that companies comply with regulatory requirements by demonstrating their ability to meet future policyholder obligations.

Trending Topics in the Insurance Industry (continued)

Are Your Forecasting Your Business? (continued)

- Strategic Planning: It provides insights into the financial health of the company, enabling better strategic planning and decision-making.

3. Implementing Cash Flow Testing

- Data Collection: Gather historical data on cash inflows (premiums, investment income) and outflows (claims, expenses).
- Scenario Analysis: Develop multiple scenarios, including best-case, worst-case, and most likely scenarios, to test the robustness of cash flows.
- Modeling Tools: Utilize advanced modeling tools like an Economic Scenario Generator to project and predict future cash flows under different economic conditions .

New Pricing Models

1. Importance of Pricing Models

Pricing models are essential for determining the premiums charged for insurance policies. Accurate pricing ensures that the company remains competitive while maintaining profitability.

2. Benefits of New Pricing Models

- Customer Segmentation: Advanced pricing models allow for more precise customer segmentation, leading to tailored products and pricing strategies that meet the needs of different customer groups.
- Competitive Advantage: Innovative pricing models can provide a competitive edge by offering more attractive premiums without compromising profitability.
- Profitability Analysis: These models help in analyzing the profitability of different products and customer segments, enabling better resource allocation.

3. Implementing New Pricing Models

- Data Analytics: Leverage big data and machine learning algorithms to analyze customer behavior, mortality rates, and other relevant factors.
- Dynamic Pricing: Implement dynamic pricing strategies that adjust premiums based on real-time data and market conditions.
- Integration with Cash Flow Testing: Combine pricing models with cash flow testing to ensure that pricing strategies align with the company's liquidity needs and financial goals.

Building a Comprehensive Forecast

By integrating cash flow testing and new pricing models, life insurance companies can build more accurate and reliable forecasts. Here’s how to do it:

1. Data Integration: Combine data from cash flow testing and pricing models to create a comprehensive dataset.
2. Scenario Planning: Use scenario planning to test the impact of different pricing strategies on cash flows and overall financial health.
3. Continuous Monitoring: Implement continuous monitoring and updating of forecasts to reflect changes in market conditions and customer behavior.

Are Your Forecasting Your Business? (continued)

By leveraging these techniques and developing a forecasting process, life insurance companies can better navigate uncertainties, optimize their financial strategies, and ensure long-term success. At Bruce & Bruce we have the actuaries and experiences to help leverage or build the actuarial tools needed as well as provide the feedback that will help guide company senior leadership through the forecasting process, results and recommend changes to implement to better achieve future financial success.

Michael LeBoeuf (mleboeuf@bruceandbruce.com) wrote the above article. Feel free to contact Michael if you have any questions or would like to learn more.

When Reserves Rewrite the Story (continued from Spring 2025 Newsletter)

Understanding Reserve Behavior at the Product Level

In our last issue, we explored why statutory change in reserves sometimes feels out of sync with day-to-day business decisions. For life and annuity companies, this single line can reshape earnings in ways that aren't always intuitive – especially when retention improves, new business grows, or claims stay steady.

This quarter, we're taking the next step: looking at how reserve patterns differ by product type. Each product carries its own reserve logic, shaped by its structure, promises, and how policyholders interact with it over time. That context can be critical when results surprise – whether the numbers come in higher or lower than expected. Understanding these product-level dynamics helps bridge the gap between operational strategy and reported financials.

Product-Level Patterns and What They Reveal

Every product tells its own story – not just through premiums and claims, but in how reserves behave over time. Understanding that story helps explain what's happening beneath the surface of earnings and why reserve changes may diverge from expectations. That context can be critical when explaining results to boards or senior leaders – especially when the change in reserve appears to counteract sound business decisions.

Term Life

Reserve patterns in term life are generally predictable. Early reserves are minimal, where they ramp up slowly and often "catch up" later in the policy's life. That means strong sales can trigger reserve increases even when mortality and lapse experience are favorable. Near the end of the term period, reserves often drop sharply as policies lapse or convert – especially in level premium term blocks.

Whole Life and Traditional Permanent Products

Whole life reserves grow steadily, largely reflecting the guaranteed accumulation in the contract. But the change in reserve also reacts to behavior: better-than-expected retention increases reserves by extending the insurer's obligation, while mortality improvement defers expected claim payments and increases reserve levels as well.

Deferred Annuities

In accumulation products, reserve increases are usually tied to deposits and credited interest. But they also reflect product features: guaranteed minimum interest rates, declining surrender charges, and penalty-free access provisions can all contribute to higher reserve requirements, particularly when policyholder behavior (e.g., slower surrenders) shifts unexpectedly.

When Reserves Rewrite the Story (continued)

Immediate Annuities and Structured Settlements

These products are generally more stable, with reserves declining over time as benefits are paid. But changes in assumptions – especially mortality improvement in older blocks – can cause sudden reserve increases, sometimes years after the initial pricing and funding decisions were made.

Why It Matters

Each product has a reserve "fingerprint." When the change in reserve swings earnings away from expectations, product-level insight helps close the gap. It can reveal whether results reflect a true shift in business health – or simply the mechanics of how obligations are measured. That clarity supports better decisions and better communication, especially when board members or senior leadership ask, "Why do the numbers look off?" Recognizing these patterns not only helps interpret performance but also supports better planning and more confident capital management.

We'll continue exploring these themes in future issues. It's part of an ongoing effort to bring more transparency to results that, at first glance, may not tell the full story. If product-level questions are coming up in your own reviews, let's talk.

Phil Deon (pdeon@bruceandbruce.com) wrote the above article. Feel free to contact Phil if you have any questions or would like to learn more.

Simplified Issue Life Insurance: A Strategic Opportunity for Small Insurers

Simplified Issue (SI) underwriting is reshaping the life insurance landscape by removing the need for traditional medical exams and lengthy application processes. Instead, applicants complete a brief health questionnaire, and insurers leverage third-party data, such as prescription histories and motor vehicle records, to assess risk. This streamlined approach enables faster decision-making, often resulting in same-day coverage, which is increasingly appealing to today's convenience-driven consumers.

For small insurers, SI products offer a compelling growth opportunity. These policies are relatively simple to design, cost-effective to administer, and well-suited for digital and direct-to-consumer sales channels. They resonate particularly with younger, healthier individuals who value speed and simplicity, as well as with those seeking basic term or final expense coverage. The ability to deliver a fast and seamless experience allows smaller carriers to compete not only on price, but also on customer experience and operational efficiency. SI is also a powerful tool for reaching underserved markets where traditional underwriting presents a barrier to entry.

That said, the model comes with important trade-offs. With limited medical information, insurers take on greater risk, increasing the potential for adverse selection and higher claims. It's not uncommon for agents to recommend SI policies to clients who have been declined through traditional underwriting, which can further elevate risk exposure. As a result, premiums are typically higher than those of fully underwritten policies, and coverage amounts are generally capped. One of the tools that may be accessed in this expedited underwriting process is a check against the Medical Information Bureau (MIB), which may be able to give additional insights to recent underwriting outcomes for the proposed insured.

Reinsurance partnerships can play a pivotal role in supporting small insurers entering the SI space. Reinsurers often have broader experience across diverse markets and higher volumes of SI business, giving them valuable insights into risk patterns and pricing. Many are willing to provide underwriting guidance, data analytics, and even share in the mortality risk—helping carriers manage exposure while accelerating time to market. Leveraging these relationships can significantly reduce the barriers to entry and enhance the long-term sustainability of an SI portfolio.

Trending Topics in the Insurance Industry (continued)

Simplified Issue Life Insurance: A Strategic Opportunity for Small Insurers (continued)

Our new Chief Actuary, Michael LeBoeuf (mleboeuf@bruceandbruce.com), brings extensive expertise across multiple areas of the life insurance business, including underwriting. In addition to a stellar reputation in the industry, Michael also brings deep experience in collaborating with underwriting teams helping to marry product vision with underwriting evolution.

If you are interested in exploring ways to further enhance your product and underwriting capabilities, please reach out to Bruce & Bruce.

Chavi Paris (cparis@bruceandbruce.com) wrote the above article. Feel free to contact Chavi and/or Michael if you have any questions or would like to learn more.

Trending Topics in the Retirement Plan Space

Declining Interest Rates – Impacts on Defined Benefit Pension Plans

With the continued talks around interest rates declining, we thought it would be helpful to have a refresher on how declining interest rates impact the mechanics and financial reporting for a defined benefit pension plan ("DB Plan"). Whether interest rates decline in the second half of 2025, or in a future year, sponsors of DB Plans need to be aware of the potential impacts (mostly negative). Below is a short summary of the potential impacts and some actions sponsors of DB Plans can take to mitigate these impacts.

Liabilities:

As interest rates decline, the present value of DB Plan benefits increases. Therefore, liability measures tied to market interest rates will increase. Declining interest rates are usually an unwelcomed change for sponsors of DB Plans. If a DB Plan's assets do not see favorable returns (via market returns or additional contributions), the funded status reported on company financials will most likely decrease as interest rates decline.

Lump Sum Payments:

Changes in interest rates typically do not impact the amount of benefit accrued under a DB Plan. Still, they do impact the present value (i.e., lump sum value) of the accrued benefit. As interest rates decline, the lump sum value of a DB Plan's benefit increases.

Note that most DB Plans lock in their lump sum interest rates for the year based on the prior year's interest rate environment. Therefore, lump sum payments in 2025 are most likely based on 2024 interest rates, whereas lump sum payments in 2026 will be based on 2025 interest rates. Sponsors of DB Plans should be aware of this if they are thinking about implementing any de-risking strategies, such as:

Lump Sum Windows:

If a DB Plan does not provide a lump sum payment option at retirement, then a lump sum window should be considered. A lump sum window provides a one-time opportunity for participants to take their DB Plan benefit as a lump sum. This offering is typically presented to deferred vested participants (participants who have not started receiving their pension benefit and are no longer working for the plan sponsor) regardless of age. Typically, the "window" lasts 45-60 days. Once the window closes, the lump sum payment option will no longer be available. Now may be a good time to implement a lump sum window to capitalize on higher interest rates (i.e., lower lump sum values). Lump sum windows also help reduce PBGC premiums and simplify plan administration. Lump sum windows can also be beneficial to plan participants (if lump sum payments are rolled over and invested).

Trending Topics in the Retirement Plan Space (continued)

Declining Interest Rates – Impacts on Defined Benefit Pension Plans (continued)

Deferred Vested Lump Sum Reminders:

If a DB Plan allows for a lump sum payment option at retirement, then a lump sum "reminder campaign" should be considered. Before interest rates decline and lead to higher lump sum values, now may be a good time to reach out to deferred vested participants (eligible for retirement) and remind them of their ability to elect a lump sum. A lump sum reminder campaign is cheap to carry out and can lead to significant savings on PBGC and administrative costs.

Jonathan Rhoda (jrhoda@bruceandbruce.com) wrote the above article. Feel free to contact Jonathan if you have any questions or would like to learn more.

Bruce & Bruce's New Chief Actuary

Bruce & Bruce is pleased to announce the hiring of Michael LeBoeuf as Chief Actuary. Michael brings 40 years of actuarial and executive leadership experience in the life and health insurance industry.

Michael has held prominent leadership positions in the industry during his career, including CEO of Converge RE II US as well as Chief Actuary roles at Prudential and Hartford Life. He has also served as a Senior Director at Willis Towers Watson and most recently founded his own consulting firm, Life Actuarial Services of Tampa, providing actuarial expert witness services for litigation and arbitration. His expertise spans reinsurance, capital financing, mergers and acquisitions, GAAP and statutory valuation, and product development.

Silvio Rodia, President of Bruce & Bruce, said:

"Michael's extensive experience and strategic insight make him an invaluable addition to our leadership team. His proven track record in actuarial innovation and executive management will be instrumental in driving our continued growth and excellence."

In his new role, Michael will focus on expanding Bruce & Bruce's capabilities in actuarial consulting, reinsurance strategy, and financial risk management. He will also play a key role in mentoring the next generation of actuarial leaders within the firm.

Michael holds a Bachelor of Science in Mathematics from the University of New Hampshire and is a Fellow of the Society of Actuaries (FSA), a Member of the American Academy of Actuaries (MAAA), a Chartered Financial Consultant (ChFC), and a Chartered Life Underwriter (CLU).

Please join Bruce & Bruce in welcoming Michael (mleboeuf@bruceandbruce.com) and wishing him success in his new role!