Fall 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 personalized and cost-effective solutions.

Trending Topics in the Insurance Industry

Rethinking Long-Term Success for Fraternal Life Insurance Companies: Beyond Growth and Mergers

Fraternal life insurance companies occupy a unique space in the financial services landscape. Rooted in mutual aid, community service, and member engagement, these organizations are not driven solely by profit but by purpose. As the insurance industry evolves, many assume that long-term success must follow the traditional corporate playbook: aggressive growth, market consolidation, or strategic mergers. However, for fraternals, these paths may not align with their mission or member expectations.

The Myth of Growth as a Universal Metric

In the broader insurance industry, growth is often equated with success. Larger market share, increased premium volume, and geographic expansion are seen as indicators of strength. But for fraternal insurers, whose primary stakeholders are members rather than shareholders, growth for its own sake can be counterproductive.

Excessive focus on expansion may dilute the organization's cultural identity, strain operational capacity, and shift attention away from member service. Moreover, growth often requires capital investment that may not yield proportional returns in a low-interest-rate or highly competitive environment.

Why Mergers Aren't Always the Answer

Mergers can offer economies of scale, access to new markets, and operational efficiencies. Yet, for fraternals, mergers can also mean the loss of heritage, disruption of community ties, and erosion of member trust. The integration of systems, governance structures, and cultures is complex and often fraught with unintended consequences.

In some cases, mergers may be necessary for survival. But they should be approached with caution and only when they clearly support the long-term mission and values of the organization.

Trending Topics in the Insurance Industry

Rethinking Long-Term Success for Fraternal Life Insurance Companies (continued)

Alternative Success Criteria for Fraternals

Instead of focusing solely on growth or consolidation, fraternal life insurers can define success through a broader, mission-aligned lens:

1. **Financial Resilience**
   Sustainable surplus levels, prudent risk management, and disciplined underwriting are more critical than rapid expansion. A strong balance sheet ensures the ability to meet long-term obligations to members.
2. **Member Engagement and Satisfaction**
   High levels of member participation, satisfaction, and retention are key indicators of organizational health. Fraternals thrive when members feel a sense of belonging and purpose.
3. **Community Impact**
   Demonstrable contributions to local communities through volunteerism, scholarships, and charitable giving reinforces the fraternal mission and differentiates these organizations from commercial insurers.
4. **Operational Efficiency**
   Streamlined processes, effective use of technology, and cost control can enhance service delivery without the need for scale-driven growth.
5. **Governance and Leadership Continuity**
   Strong, mission-driven leadership and effective governance structures ensure that the organization remains true to its founding principles while adapting to change.
6. **Innovation in Member Services**
   Offering relevant, personalized products and services—especially those that support holistic well-being—can deepen member relationships and attract new generations.

Examples of Successful Fraternal Life Insurers

Several fraternal organizations exemplify long-term success through financial stability, member engagement, and mission alignment:

- **Thrivent Financial**: The largest fraternal insurer in the U.S., Thrivent accounted for nearly 45% of total fraternal premiums in 2023. Despite its size, Thrivent maintains strong member-focused programs and community outreach, blending scale with purpose.
- **Knights of Columbus**: With over $2 billion in revenue and a 25.5% return on revenue in 2024, the Knights of Columbus demonstrates how a faith-based fraternal can achieve financial strength while remaining deeply committed to charitable work and member support.
- **Modern Woodmen of America**: Known for its strong annuity business and community programs, Modern Woodmen reported $538 million in revenue and an 18.3% return on revenue in 2024, showing that mid-sized fraternals can thrive without aggressive expansion.
- **Catholic Order of Foresters**: This organization saw a 113% year-over-year increase in annuity considerations in 2023, reflecting strategic product innovation and member-focused growth.
- **Royal Neighbors of America**: With a strong history of empowering women and supporting grassroots initiatives, Royal Neighbors continues to grow modestly while maintaining a strong social mission.

Rethinking Long-Term Success for Fraternal Life Insurance Companies (continued)

In Summary

For fraternal life insurance companies, long-term success is not a race to become the biggest player in the market. It is about staying true to their mission, serving members with integrity, and making a meaningful impact within their communities. By redefining success on their own terms, fraternals can remain vital and relevant for generations to come—without sacrificing their identity in pursuit of growth.

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.

VM-22 and Principle-Based Reserving: Opportunities for Small Insurers & Fraternals

Beginning January 1, 2026, insurance companies in the U.S. that have more than $1 billion in gross annuity reserves will be required to apply the new Principle-Based Reserving (PBR) framework known as VM-22 (VM-22 refers to Section 22 of the NAIC Valuation Manual) to new blocks of non-variable annuity business. Companies have a three-year transition period to adopt the VM-22 framework with mandatory compliance for new business issued starting January 1, 2029. For companies that meet the exemption threshold, transitioning to the VM-22 framework remains optional. It should be noted that the implementation of VM-22 applies only to new policies issued after the framework has been adopted by the company.

At its core, the replacement of CARVM (the current valuation framework) with PBR marks a shift from a uniform, formula-based valuation framework to one that is more company-specific. Traditional CARVM rules often overstate reserves for annuity blocks since they rely on industry-wide assumptions. In contrast, VM-22 allows actuaries to incorporate company-specific experience and prudent assumptions, producing reserves that better reflect the actual risks. While companies will have more discretion in setting valuation assumptions, valuation actuaries must still follow specific prescribed steps, including documentation, sensitivity testing, and governance processes.

Under the PBR framework, regulators expect enhanced governance and greater transparency in reporting. This means that in addition to increased modeling costs, companies should anticipate added expenses related to assumption setting, governance frameworks, and expanded reporting requirements.

This raises an important question: given all the additional effort and cost, what benefits might companies expect to gain?

Where VM-22 Can Be Beneficial

The value of VM-22 lies in product complexity and how a company's experience compares to industry benchmarks. Companies offering simpler products with fewer embedded options, credible experience, and risk-sharing features, may see meaningful reserve relief.

- Single Premium Immediate Annuities (SPIAs) & Deferred Income Annuities (DIAs): Reserves reflect actual mortality and investment returns, often leading to lower and more stable results compared to CARVM.
- Multi-Year Guaranteed Annuities (MYGAs): VM-22 allows the recognition of reinvestment strategies and realistic lapse behavior, which may reduce reserve strain.
- Fixed Deferred Annuities with MVAs: Market Value Adjustments mitigate disintermediation risk, and VM-22 explicitly accounts for this protection in reserve calculations.

VM-22 and Principle-Based Reserving (continued)

Smaller companies that already focus on simple product designs are likely to gain the most benefit from VM-22 implementation. In contrast, companies offering products with complex guarantees, such as rich annuitization floors, bail-out provisions, or enhanced living and death benefits, may see little or no benefit, and in some cases could face higher reserve requirements. What is certain is that these companies will need to innovate in product design to manage costs effectively.

For fraternal and smaller insurers, VM-22 should be viewed not merely as a compliance requirement, but as a framework that can create a competitive advantage. By continuing to focus on straightforward annuity products and leveraging company-specific experience, smaller organizations may begin holding lower reserves that are better aligned with their actual liabilities.

In Summary

Small insurers should begin assessing their product portfolios today to identify where VM-22 offers reserve relief and where product adjustments may be needed - turning regulatory change into strategic advantage. Please reach out to the Bruce & Bruce team to evaluate your annuity product portfolio and explore potential benefits under PBR.

Vladimir Krepkiy (vkrepkiy@bruceandbruce.com) wrote the above article. Feel free to reach out to Vlad if you have any questions or would like to learn more.

New York Special Considerations Letter for December 31, 2025

New York recently released its Special Considerations Letter (SCL) for December 31, 2025, to aid in asset adequacy analysis for companies licensed in New York. Below are some of the highlights.

1. **Section 1 – Assumptions – Guidance Modified on Flexible Premium Annuities.** For contracts with flexible premiums (e.g., individual flexible premium deferred annuities), an appropriate level of additional contributions, consistent with historical experience for the scenario tested should be included, especially in the decreasing interest rate scenarios, to assess the potential intermediation risk due to minimum interest rate guarantee. This should be included as part of the baseline testing and is not considered a sensitivity test.

2. **Section 4 – Interest Rate Scenarios.** The SCL contains interest rate environment scenarios in addition to those described in Regulation 126, commonly known as the "New York 7." These modified scenarios further test decreasing yield environments, in which lower yields may stress portfolio rates. The following 2025 scenarios are identical to the 2024 letter:

   Scenario 5 (Modified gradual down) Projected rates decreasing over ten years and then level. The amount of the decrease is set equal to 0.40% unless the prior year's projected rate is 2.50% or less at which point the decrease in rates is set equal to 0.10%.

   Scenario 6 (Modified down/up) Projected rates decreasing each year over five years and then increasing the same amounts as the decrease in rates each year for five years to the original level at the end of ten years and then level. The amount of the decrease is set equal to 0.80% unless the prior year's projected rate is 2.50% or less at which point the decrease in rates is set equal to 0.20%.

   Scenario 7 (Modified pop-down) An immediate decrease in rates and then level. The amount of the decrease is equal to 2.50% if rates are greater than or equal to 5.0%. If rates are below 5.0% but greater than 2.50%, then the drop is reduced to the starting rate less 2.50% plus 25% of the difference between 5.0% and the starting rate. If rates are less than or equal to 2.50%, then the drop is equal to 0.625%.

New York Special Considerations Letter for December 31, 2025 (continued)

3. **Section 9 – AAA Testing – Guidance Modified on Equity Linked Products**

   With respect to equity linked products (e.g., equity indexed annuities, buffer annuity products, registered index-linked annuities (RILAs), equity indexed universal life, buffer life products, etc.) asset adequacy analysis should ensure that combinations of interest rate risk and equity risk are tested. Toward this end, each of the interest rate scenarios specified in Section 95.10(d)(1)(i), (ii), (iii) and (iv) of Regulation 126 and the modified scenarios 5, 6, and 7 described in Item 4 of this newsletter should be tested in conjunction with equity scenarios that are sufficiently robust to gauge the impact of all guarantees. This testing must be performed separately for each product.

4. **Section 13 – Additional Review Criteria for AAA per Regulation 126**

   There is one expanded requirement (13f) and one new requirement (13s).

   13(f) To the extent yield enhancing activity (e.g., securities lending, repurchase agreements, etc.) is material to projected cash flows, explain how it is taken into account. Risk free profits may not be assumed in the testing as a result.

   13(s) The full amount of admitted negative IMR must be included in the starting assets in asset adequacy testing. The supporting memorandum should confirm, and provide a description of, how the proceeds from fixed income assets were used to buy new, higher yielding fixed income assets and that the proceeds from the sales were not used to pay claims.

Please reach out to the Bruce & Bruce team for further discussion and support in filing your 2025 results with New York.

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

Cash Flow Testing and Reserves

In earlier newsletters, we've seen how reserves shape both the balance sheet and the operating statement. Cash flow testing is the natural extension of that discussion. Reserves represent the value of the promises we make. That value changes with headwinds - from interest rates to member behavior, among other market conditions. Cash flow testing brings those moving parts together to see how the business might operate in less favorable environments.

The exercise begins with today's reserves and the assets that support them. Then, instead of assuming everything follows the expected path, we introduce stresses: lower reinvestment yields, higher surrenders, or other shifts in experience. Real assets are projected to pay insurance claims in these scenarios. By projecting cash inflows and outflows under these conditions, we measure whether the Society could continue to meet its obligations under moderately adverse conditions.

This approach provides two key insights. It shows whether the reserves reported are sufficient when tested against real-world dynamics, and it highlights sensitivities - those areas where results change quickly as assumptions move. Depending on the environment, the drivers of those sensitivities can vary: sometimes interest rates, sometimes persistency, and sometimes the timing of new business.

For board members and staff, the value lies in how cash flow testing links reserve adequacy to broader financial resilience. It frames the reserves not as a static requirement, but as part of an ongoing cycle to ensure promises to members are sustainable under more than just the expected conditions. Cash flow testing provides a value for our promises in the current environment.

Trending Topics in the Insurance Industry

Cash Flow Testing and Reserves (continued)

The process is both a regulatory requirement and a prudent discipline. It builds confidence that reserves are not only sufficient in theory but also robust in practice when the environment turns moderately adverse. In short, cash flow testing helps translate the reserve figures you see in reports into a forward-looking assurance about the Society's financial strength.

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.

Cashflow Testing Reminders

Cash flow testing season is almost upon us. This is a reminder to make sure that you have processes in place to provide accurate data and information in a timely manner upon request from your actuaries. The standard data requested as of a valuation date (typically 3rd or 4th quarter) is:

- Liability - Policy inforce data
- Trial Balance
- Assets - Schedule D/E/BA/DA
- Reinsurance Treaties

In addition to the standard data requested, you should indicate any additional information about your business which may impact future business projections. For example:

- Does the company expect future expenses to be lower/higher than historical levels?
- Provide a description of material changes in asset mix.
- Describe any changes in reinvestment strategy.
- Provide current or updated investment policy statements.
- Provide any other information that may impact your business.
- Provide updated company experience including death claims, surrenders, partial withdrawals, and expense data.

An additional reminder for companies which have gone through an examination this year – please ensure that all findings from the examination are properly addressed. Examiners continue to focus on understanding the underlying assets, specifically any alternative assets held.

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

Trending Topics in the Retirement Plan Space

Total Rewards

As an employer, it is vital to have "total rewards" conversations with your employees. The term total rewards refers to all of the benefits you are providing an employee, such as compensation, business expenses (i.e., required training, attending conferences/seminars, etc.), health and insurance benefits, and retirement benefits. These types of conversations are important as they help to highlight the other benefits (other than compensation) that an employee receives for working for your organization. Most employees focus on compensation and forget about the other "benefits" they receive. Therefore, it is important to remind employees that they are receiving more than just compensation from your organization.

If your company sponsors a defined benefit pension plan ("DB Plan"), you should ensure your employees understand this benefit's value. Below is an example:

- DB Plan benefit formula: 2% (times) Benefit Service (times) Average Compensation *(payable as a single life annuity starting at age 65)*
- Plan participant compensation history:
  - 2022: $75,000
  - 2023: $80,000
  - 2024: $85,000
  - 2025: $90,000
  - 3-Year Average Comp (1/1/2025): $80,000
  - 3-Year Average Comp (1/1/2026): $85,000
- Benefit Service: 5 years (1/1/2025); 6 years (1/1/2026)
- Annual DB Plan benefit:
  - 1/1/2025: 2% X 5 Years X $80,000 = $8,000
  - 1/1/2026: 2% X 6 Years X $85,000 = $10,200
- 2025 increase in DB Plan benefit = $2,200
- Approximate lump sum value (at age 65) of $2,200 increase: $27,000
  (following IRS Code Section 417(e)(3) interest rate assumptions as of August 2025)

Under a DB Plan, increases in annual benefits are funded entirely by the employer. Therefore, the value of the increase should be communicated to employees in any total rewards conversations.

Reach out to Bruce & Bruce if you want help with total rewards conversations. Highlighting the value of the benefits you provide to your employees will help improve employee attraction and retention!

Year-end Reminders

As we approach year-end 2025, below are some helpful reminders pertaining to defined benefit pension plans:

- Year-to-date pension plan trust returns should be analyzed to help determine estimated impacts to the pension plan's year-end funded status. A decrease in the pension plan's funded percentage could result in increased contribution requirements for 2026 and beyond.

Trending Topics in the Retirement Plan Space

<u>Year-end Reminders (continued)</u>

- Year-to-date lump sum payments/pension settlements should be analyzed and compared against Settlement Accounting thresholds (typically Service Cost + Interest Cost used in the calculation of fiscal Net Periodic Benefit Cost) to determine if Settlement Accounting is needed with year-end reporting.
- Year-end assumptions (such as: discount rate, salary increases, and mortality) should be analyzed to determine if any changes are needed when reporting year-end pension plan benefit obligation/liability figures on year-end financial statements.
- Establish tentative timelines for any pension de-risking strategies (such as lump sum windows, annuity buy-outs, and plan terminations) planned for 2026. Some strategies may take more than 12 months to carry out. Therefore, timelines should be reviewed to make sure they align with company goals/objectives.

Reach out to Bruce & Bruce if you'd like to learn more about planning for 2026 and beyond!

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