



Summer 2026 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

Understanding Expense Drivers Through Benchmarking

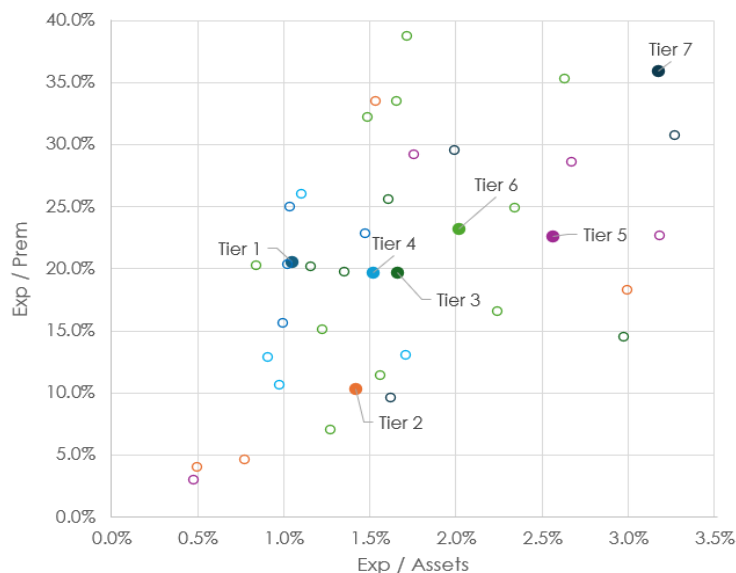
Improving the bottom line ultimately comes down to two levers: how much an organization earns and how much it spends. Expense benchmarking can help management assess whether resources are being deployed effectively by comparing an organization's results with those of relevant peers.

For life insurers and fraternal benefit societies, however, benchmarking is not as simple as comparing one expense ratio with a market average. Smaller organizations often require many of the same actuarial, compliance, governance, administrative, and technology functions as much larger companies. Because these costs do not decline proportionately with premium or assets, smaller companies must spread them over a narrower base.

Using statutory statement data, we reviewed the expense results of a sample of life insurers and fraternal benefit societies and grouped the organizations into seven size tiers. Tier 1 represents the largest organizations in the sample, while Tier 7 represents the smallest.

The chart compares expenses as a percentage of assets with expenses as a percentage of premium. Expenses relative to assets provide a view of the expense burden in relation to organizational scale. Expenses relative to premium provide an indication of whether premium volume is sufficient to support that burden.

Expense Ratios, Selected Companies



Trending Topics in the Insurance Industry (continued)

Understanding Expense Drivers Through Benchmarking (continued)

Organizations in the lower-left portion of the chart have relatively low expenses under both measures. Organizations farther to the right have higher expenses relative to assets, while organizations nearer the top have higher expenses relative to premium. Companies in the upper-right portion may warrant closer review because both measures indicate a comparatively high expense burden. The chart should nevertheless be viewed as a starting point for investigation, not a conclusion about management performance.

The relationship between size and expense ratios is clear. Larger organizations generally cluster toward the lower-left portion of the chart because they can spread administrative, governance, technology, and professional-service costs over a broader base. Smaller organizations tend to show greater dispersion, demonstrating that size alone does not determine efficiency. Product mix, distribution strategy, staffing, technology, servicing requirements, growth expectations, and organizational structure can all contribute to the differences.

Premium-based measures require particular care. A mature or shrinking organization may have modest premium volume even though it continues to administer a substantial in-force block and maintain the infrastructure required to operate an insurance company. In that situation, expenses relative to premium may appear high even when the underlying expense dollars are reasonable. In other cases, a high ratio may indicate that premium volume is no longer sufficient to support the organization's expense structure.

For this reason, no single ratio provides a complete answer. Assets, premium, reserves, policy or member count, multi-year trends, and the composition of expenses can each provide additional context. Peer groups should also reflect differences in size, product mix, distribution, operational complexity, and growth profile.

Additional consideration may be necessary for fraternal benefit societies, which may support lodge activities, charitable programs, educational initiatives, cultural or religious programs, member benefits, and community activities. These expenditures may be central to the organization's mission and should not automatically be viewed as inefficient.

The goal of benchmarking is not to produce a league table or label expenses as good or bad. It is to understand why an organization differs from its peers and whether those differences are intentional, sustainable, and aligned with its strategy.

Bruce & Bruce can help insurers and fraternal benefit societies develop targeted benchmarking reports. By selecting appropriate peers, combining multiple expense measures, and examining the drivers behind the results, benchmarking can become a practical tool for refining spending priorities and strengthening long-term profitability.

Vlad Krepkij (vkrepkiy@bruceandbruce.com) and Phil Deon (pdeon@bruceandbruce.com) are credited with writing the above article. Feel free to reach out to them if you have any questions or would like to learn more.

Trending Topics in the Insurance Industry (continued)

MYGA Products: Key insights from Developing Robust Lapse Studies

Companies offering MYGA products should perform lapse studies to better understand policyholder behavior within their block of business and develop strategies to manage associated risks. Combining industry observations and Bruce & Bruce's own experience developing MYGA lapse studies, this article will discuss factors commonly associated with MYGA surrender behavior and management strategies.

Influences on MYGA Surrender Behavior

- External Interest Rate Environment - MYGA business is highly sensitive to changes in external interest rates. Significant differences in surrender activity can be observed between higher and lower interest-rate environments.
- Expiration of Surrender Charge Period - Elevated surrender rates are typically observed in the year the surrender charge period expires, regardless of the interest rate environment.
- Policy Size – Larger policies may create greater economic incentives for producers to recommend replacing an existing contract, potentially increasing lapse activity.
- Market vs. Credited Rates - Surrender rates generally rise as the spread between market rates and credited rates widens, even during surrender charge periods in increasing rate environments. A recently published SOA study found a notable increase in surrender activity when the market to credited rate spread exceeded 3%.
- Low Guaranteed Rates - If credited rates revert to low guarantees at the expiration of both the surrender charge period and crediting of higher rates, policies may be more prone to lapse.
- Passive vs. Active Policyholders - Active policyholders may be more inclined to surrender in search of higher yields, either at the end of the surrender charge period or even during it if significantly higher rates are available. Passive policyholders may remain well past the surrender charge period.
- Distribution Channels – Distribution channels can materially influence lapse behavior, particularly when producers actively seek alternative products offering more competitive rates.
- Partial Withdrawals – Generous partial withdrawal benefits commonly found in MYGA product design can subject insurers to additional liquidity risk.

Strategies to Manage Surrender Risk

- External Surrenders vs. Internal Exchanges - Companies that proactively offer competitive replacement products with market sensitive rates may retain policyholders who would otherwise surrender at the end of the guarantee period, encouraging internal exchanges instead of external surrenders.
- Crediting Rate Strategies to Encourage Retention - Competitive post-surrender period crediting rate strategies may improve policyholder retention at the shock lapse point and beyond.
- Reinsurance Arrangements - Reinsurance arrangements can help mitigate surrender-related liquidity exposure during periods of rising interest rates. The arrangement provides protection to grow and write business without taking on full liquidity risk.

Trending Topics in the Insurance Industry (continued)

MYGA Products: Key insights from Developing Robust Lapse Studies (continued)

- Partial Withdrawals - Lapse studies should evaluate partial withdrawal behavior. Identifying the utilization of these benefits by policyholders can support the development of assumptions used in cash flow testing (CFT), asset-liability management (ALM), and liquidity planning.
- Understand Policyholder and Agents Behavior – This is a key benefit to lapse studies. Finding the drivers of lapse may help to identify where risk is present and that knowledge is powerful tool for managing it.

Performing a lapse study on your MYGA block of business helps to identify the key drivers of policyholder behavior and focus management efforts on the areas of greatest risk. Bruce & Bruce can assist with developing experience studies and actionable lapse assumptions tailored to your business.

Kathleen Lawrence (klawrence@bruceandbruce.com) is credited with writing the above article. Feel free to reach out to Kathleen if you have any questions or would like to learn more.

US Treasury Interest Rate – Impacts to the Life Insurance Industry

Overview

The Federal Reserve kept the federal funds rate unchanged at 3.50%-3.75% following the June 2026 meeting. This action followed three consecutive 25 bp rate cuts in 2025. The Fed's ongoing objective is to bring inflation back to its 2% target while supporting the labor market. However, renewed price pressure and global disruptions have slowed progress toward this target. Many market participants expect rates to hold steady or rise by at least one 25 bp rate hike before year end 2026.

The U.S. Treasury yield curve flattened modestly recently as both short and long-term rates have increased, compared to the end of 2025. As of 06/30/26, the 10-year bond yield rose to 4.44%, up from 4.18% on 12/31/25. The one-year rate rose to 3.98%, up from 3.48% on 12/31/25. With the rising U.S. Treasury yield curve, 2027 valuation rates have either remained constant or increased across all product lines as summarized below.

Impact on Valuation Rates (as of 06/30/2026)

Life Insurance: Effective January 1, 2027, the life valuation rate will increase 50 basis points to 4.00%, up from the 3.50% rate in effect for the past two years. The nonforfeiture rate is a function of the valuation rate. The new maximum nonforfeiture rate for 2027 is 5.00%, compared to the current rate of 4.50%.

Deferred Annuity: Deferred annuity valuation rates for FPDA and SPDA have either remained level for some groupings, or they have increased by 25 bp. For example, the rate for Type C for 2026 issues (5+ to 10 years and fewer, issue-year basis) has remained 4.25%, the same as 2025.

Immediate Annuity (VM-V): Immediate annuity valuation rates are published quarterly by the NAIC and are available on the Principle Based Reporting tab. As of Q3 2026 rates for non-jumbo cases (less than \$250 million initial deposit) without life contingencies have risen by 25 basis points for shorter term issues (valuation buckets A and B) and remained constant for longer term issues (valuation buckets C and D).

Trending Topics in the Insurance Industry (continued)

US Treasury Interest Rate – Impacts to the Life Insurance Industry (continued)

Specific Considerations for Life Insurance Issued in 2027

For life insurance issued in 2027, both the prescribed valuation interest rates and statutory nonforfeiture interest rates will be higher than current levels. In practical terms, this means the maximum rates allowed within the statutory frameworks used to calculate reserves and nonforfeiture values have been raised.

The increase in nonforfeiture rates will not require organizations to refile their actuarial demonstrations because current nonforfeiture rates remain below the maximum permitted levels. As a result, organizations may continue to offer their existing nonforfeiture benefits. It is common practice for organizations to take advantage of higher valuation interest rates by reducing reserve liabilities while maintaining the same nonforfeiture benefits, thereby allowing for a more attractive product design. In these situations, organizations must ensure that policy liabilities remain at least as great as the corresponding cash values. Additionally, organizations are encouraged to review their pricing memoranda to determine whether the increase in valuation and nonforfeiture rates is material enough to improve product affordability for consumers.

Operational and Reporting Considerations

From an administrative standpoint, organizations will likely need to update plan codes or product identifiers used in financial and regulatory reporting, such as exhibits that group business by either valuation basis or issue year segments. This will facilitate accurate tracking of the new 2027 segment of business that is subject to the higher valuation and nonforfeiture interest rates.

Companies should coordinate their actuarial, finance, and administration teams to ensure that system parameters, plan codes, and internal controls are updated in advance of writing 2027 business. Clear segmentation of blocks of business issued before and after 1/1/2027 will support more transparent experience monitoring and future assumption reviews.

Bruce & Bruce is well positioned to assist companies in navigating the evolving rate environment through strategic product design, balance sheet optimization, and effective interest rate risk management. Reach out if you have any questions or to find out how Bruce & Bruce can help your business.

Kathleen Lawrence (klawrence@bruceandbruce.com) is credited with writing the above article. Feel free to reach out to Kathleen if you have any questions or would like to learn more.

VM-22 CHEAT SHEET

A Companion Reference

In our Fall 2025 issue, Vlad Krepkii highlighted how VM-22 can be a strategic opportunity for insurers. This cheat sheet is a quick decoder to keep on hand as the new framework is now in effect.

FIRST, A WORD ON THE NAME



When someone says VM-22 going forward, they mean the full PBR methodology — not the old interest rate rules.

KEY DATES AT A GLANCE



SCOPE



VM-22 CHEAT SHEET — Continued

What It Means for You

HOW RESERVES MAY CHANGE



MAY DECREASE

Companies with credible, favorable experience — better mortality, lapses, and policyholder behavior than CARVM assumes — may see reserve relief since VM-22 uses their own experience.



MAY INCREASE

Complex guarantees and unfavorable experience can drive higher reserves under VM-22 than under CARVM.



COST OF COMPLIANCE

VM-22 requires significantly more modeling work — new infrastructure, ongoing governance, scenario testing, and expanded VM-31 disclosures — which adds meaningful cost and effort.

THE FRATERNAL EDGE



EXPERIENCE THAT COUNTS

Your members tend to stay for the long haul, producing the kind of stable, credible experience that PBR rewards.



SMALL COMPANY EXEMPTION

Companies with less than \$1B of non-variable annuity reserves can file for an annual PBR exemption (\$2B combined threshold for NAIC groups). Contracts with guaranteed living benefits do not qualify for the exemption.

WHAT TO ASK YOUR BRUCE & BRUCE ACTUARY

- ☐ Which of our products are most sensitive to VM-22?
- ☐ Is our own experience credible enough to drive favorable assumptions?
- ☐ What modeling support do we need to be VM-22 ready?
- ☐ How does VM-22 interact with our asset adequacy testing and capital planning?
- ☐ Does our product mix favor early adoption, or should we use the full transition window?

JARGON BUSTER

PBR

Principle-Based Reserving — uses your company's own experience

CARVM

the old formulaic method being replaced

SET/SST

screening tests to decide if full stochastic modeling is needed

DR/SR

Deterministic Reserve / Stochastic Reserve

CTE70

70th-percentile tail expectation used in the stochastic reserve

VM-V

current home for the old VM-22 interest-rate rules



QUESTIONS?

This cheat sheet was put together by Chavi Paris for your reference. Reach out to the Bruce & Bruce team to discuss what VM-22 means for your organization.

Trending Topics in the Retirement Plan Space

Why Funded Status Goals Matter More Than Ever

For many defined benefit (DB) pension plan sponsors, funded status has become the primary measure of pension plan health. Yet too often, organizations view it as a scorecard rather than a strategic management tool. The most successful plan sponsors recognize that establishing clear funded status goals is essential to balancing financial performance, risk, and long-term plan sustainability.

A funded status goal should reflect more than a desire to reach 100% funding. It should support the organization's broader objectives, including contribution budgeting, earnings stability, balance sheet management, and long-term pension risk strategy. Whether the goal is to maintain a funding surplus, prepare for a pension risk transfer, or stabilize future cash contributions, defining measurable targets creates a framework for informed decision-making.

Equally important is connecting funded status goals to investment strategy. As funding levels improve, sponsors have opportunities to protect gains by gradually increasing liability-hedging assets and reducing exposure to market volatility. A disciplined glide path transforms market improvements into lasting progress, helping organizations avoid the cycle of funding gains followed by funding losses during periods of market stress.

Achieving funded status objectives also requires ongoing monitoring and governance. Interest rate movements, investment performance, demographic experience, and evolving actuarial assumptions can quickly change a plan's financial position. Sponsors that regularly evaluate these factors are better positioned to adapt their strategies, optimize contribution timing, and capitalize on de-risking opportunities when they arise.

At its core, funded status is not simply an actuarial metric—it's a strategic business indicator. Organizations that establish clear funding objectives, align investment policy with those objectives, and regularly assess progress are better equipped to reduce pension volatility and strengthen financial outcomes.

At Bruce & Bruce, we are helping our clients move beyond measuring funded status to actively managing it. By integrating actuarial analysis, investment strategy, and risk management into a cohesive funding framework, we help organizations make confident, data-driven decisions that support both their pension plans and their broader business goals. Reach out to Bruce & Bruce today to learn more.

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.

About Bruce & Bruce

Bruce & Bruce has been providing value-added consulting services for life and health companies since 1929. We are experts in insurance products and retirement plans and provide guidance in these areas to help foster the success and growth of your business. Our consulting services include, but are not limited to the following: Actuarial, Marketing, Life Insurance and Annuity Product Development, Reserve Calculations, Compliance, Financial Reporting, Strategic Advisory, Enterprise Risk Management, Merger & Acquisition Analysis, Financial Projection Models and Retirement Plan Solutions.

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