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4 **UNITED STATES DISTRICT COURT**
5 **CENTRAL DISTRICT OF CALIFORNIA**
6 **WESTERN DIVISION**

7
8 LSIMC, LLC, on behalf of itself and all others
9 similarly situated,

10 Plaintiff,

11 vs.

12 AMERICAN GENERAL LIFE INSURANCE
13 COMPANY,

14 Defendant.

Case No. 2:20-cv-11518-SVW (PVCx)

**DECLARATION OF PHILIP J.
BIELUCH, FSA, MAAA**

1 I, Philip J. Bieluch, hereby declare as follows:

2 1. I submit this declaration in support of Class Counsel Susman Godfrey’s
3 Motion for Attorneys’ Fees, Reimbursement of Litigation Expenses, and Incentive
4 Award, and in support of Plaintiff’s forthcoming motion for Final Approval of the
5 proposed class action Settlement between Plaintiff LSIMC, LLC, on behalf of itself
6 and the proposed Settlement Class, and Defendant American General Life Insurance
7 Company (“AmGen”). I have personal, first-hand knowledge of the matters set forth
8 herein and, if called to testify as a witness, could and would testify competently
9 thereto.

10 **A. Background**

11 2. I am a Fellow of the Society of Actuaries and a Member of the American
12 Academy of Actuaries. I am self-employed and I work and reside in Punta Gorda,
13 Florida, where I hold business registration number 23-00018744.

14 3. I earned a B.S. degree in Computer Coordinated with Mathematics from
15 Trinity College in Hartford, CT in 1976. I am a Fellow of the Society of Actuaries
16 since 1981 and a Member of the American Academy of Actuaries since 1979. I have
17 over 40 years of actuarial experience. A copy of my curriculum vitae summarizing
18 my background and experiences is attached to the declaration as Exhibit A.

19 4. I had several roles in the Society of Actuaries which have provided me
20 experience in assessing mortality experience of insurance companies. These include
21 being a member of the following committees: Committee on Life Insurance &
22 Annuity Experience, Individual Annuity Experience Committee (Chair from 1990
23 to 2009), Committee on Experience, Life Practice Advancement Committee,
24 Forecasting and Futurism Section Council and Spring Individual Life and Annuities
25 Examination (Vice-Chair, 1993).

26 5. I am a member of the American Academy of Actuaries and I meet the
27 Qualification Standard of the American Academy of Actuaries to render the actuarial
28 opinions contained herein.

1 **B. Executive Summary**

2 6. I was retained by Class Counsel to independently value the “Non-
3 Contestability Benefit” provided for in paragraph 51 of the proposed Settlement of
4 the above-referenced action. Specifically, this benefit states:

5 **Non-Contestability Benefit:** American General agrees it will not seek
6 to void, rescind, cancel, have declared void, or otherwise deny coverage
7 of death claims submitted by Settlement Class Members because of
8 [Stranger Originated Life Insurance] STOLI or any alleged lack of
9 insurable interest (the “Non-Contestability Benefit”). The Non-
Contestability Benefit does not apply to any alleged STOLI or lack of
insurable interest made in connection with an application to reinstate
coverage after the Effective Date.

10 In simplified terms, the Non-Contestability Benefit provides that AmGen will not
11 seek to deny payment of a death claim on the basis that the owner of a Settlement
12 Class Policy did not have an insurable interest in the insured of the Policy. The
13 benefit provides Settlement Class Members with increased confidence that their
14 death claims will be fully paid once a claim is submitted, and prevents AmGen from
15 diminishing, or potentially nullifying, the value of the other settlement relief by
16 challenging the validity of any Class Policies (and particularly those that increase
17 their policy funding to maximize the increased interest payments). This benefit lasts
18 in perpetuity for Settlement Class Members with In-Force Policies.

19 7. I have been asked to value the Non-Contestability Benefit as starting from
20 January 31, 2023,¹ and this Declaration provides an estimate of the value of that
21 Benefit from AmGen to the Settlement Class.
22
23
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25 _____
26 ¹ While I have been asked to value the Non-Contestability Benefit starting from
27 January 31, 2023, my valuation would not substantially change if the valuation were
28 to start at a later date. This is because a primary input in my calculation is AmGen’s
historic overall percentage of claims reductions through challenges to death benefit
claims. This percentage is not dependent on the start date of the valuation.

8. As a result of the analysis set forth in this declaration, I have determined that a reasonable estimate of the value of the Non-Contestability Benefit secured for the Settlement Class, is the following:

Commitment	Value
Validity Confirmation	\$9,242,445.43
Total	\$9,242,445.43

9. For this declaration “Settlement Class” is assumed as the 40,610 policies identified in the data files of policy data up to December 31, 2022, provided to me by Class Counsel (the “Class Policies”) from data that AmGen has provided. Of these, 18,926 policies were still in force, with 71 death claims pending. The values shown above assume there are no opt-outs.

C. General Approach and Data Considered

10. A reasonable and fair approach to measure the value of the Non-Contestability Benefit to the Settlement Class is a present value of the expected cost of the promises—*i.e.*, the cost of providing the benefit. The discount rate applied to the calculations is representative of AmGen’s investments earnings during the time frame resulting in a discount interest rate of 3.888% as discussed in Section 1.4.

11. The calculation of the Benefit value is made by using future projections of the death benefits of the Class Policies. A factor is then applied based upon AmGen’s historical average reduction for settlements on resisted policies as a percentage of overall claims.

12. The future projections require a modelling of future expected mortality and lapse experience of the policies. I have extensive experience with cash flow projections for life insurance policies including universal life insurance policies like the Class Policies.

1 13. I have been provided information on 40,610 policies² since 2002 containing
2 the history of issue, lapses, surrenders and death claims for the Settlement Class.

3 The following is the status of the Class Policies as of December 31, 2022:

Status as of 12/31/22	Number of Policies
Active	18,769
Death Claim	4,365
Death Claim Pending	71
Disabled	4
Lapsed	9,702
Lapse Pending	76
Matured	6
Maturity Extended	6
Maturity Terminated	1
Replacement (Internal)	63
Surrendered	<u>7,547</u>
Total	40,610

12 14. I have only included the 18,769 active policies in my analysis. I have assumed
13 that there are no reinstatements or opt-outs to the proposed Settlement.

14 15. I was asked to assume that the Non-Contestability Benefit starts on January
15 31, 2023. Therefore, it was necessary to update the Settlement Class from December
16 31, 2022, to January 31, 2023. For the purposes of this declaration, I used the
17 assumptions for lapse, surrender and mortality as described in section 1 of this
18 declaration, to update from December 31, 2022, to January 31, 2023, as described in
19 more detail in Section 1.1 and 1.2.

20 **D. Approach for Valuing the Non-Contestability Benefit**

21 16. The Non-Contestability Benefit is an agreement by AmGen not to challenge
22 or rescind any policies due to an alleged lack of insurable interest or because the
23 policy is alleged to be a Stranger-Owned Life Insurance (STOLI) policy.

24 17. Typically, life insurance policies provide a two-year “contestability” period,
25 during which the insurer can contest the payment of death benefit claims due to
26 reasons such as suicide or inaccuracies in the medical statements submitted in
27

28 ² Confirmatory Discovery - LSIMC (FRE 408).xlsx

1 conjunction with the policy's application. From the data I have received, all In-Force
2 Class Policies are outside of their contestable periods, meaning that AmGen can no
3 longer deny death benefit claims based upon the reasons above. As a result, and in
4 my experience, absent trivial issues such as failure to present a death certificate,
5 alleging a lack of insurable interest is now the primary basis on which insurers like
6 AmGen would contest the payment of a death benefit claim.

7 18. The calculation of the value of the Non-Contestability Benefit was performed
8 as the present value of the death benefit times the average historical savings to
9 American General from their rescission practices exclusive of litigation costs. To
10 provide a valuation of the Non-Contestability Benefit, I analyzed the following:

- 11 • estimated timing of the future claims to AmGen for death benefits for the In-
12 Force Class Policies;
- 13 • the probability that AmGen could successfully resist a claim based upon an
14 alleged lack of an insurable interest or the policy being a STOLI; and
- 15 • the amount of pay out that AmGen would have saved in the event of
16 successfully resisting a claim that AmGen is now foregoing (and that is
17 therefore a Settlement benefit).

18 19. The savings to AmGen by not having to pay death benefit claims because it
19 successfully challenged a death benefit claim on the basis that the policy lacked an
20 insurable interest or was a STOLI represents the value of the Non-Contestability
21 Benefit to the Settlement Class. Put differently, by securing the Non-Contestability
22 Benefit, Class Counsel has secured the payment of additional death benefit claims
23 to the Class Policies' beneficiaries that AmGen otherwise may not have paid.

24 20. The timing of the future claims was projected using mortality and the lapse
25 assumptions described in Sections 1.1 and 1.2, below. The Non-Contestability
26 Benefit has no end date and therefore projections were extended for 40 years, after
27 the likely last policy maturity of the Class Policies likely to be subjected to a validity
28 challenge.

1 21. The present value of the death benefit claims was calculated by discounting
2 at a rate of 3.888% interest as discussed in Section 1.4 below.

3 **E. Section 1 - Scenario Assumptions**

4 The cash flow projections make use of the following assumptions.

5 **1.1 Mortality**

6 22. I used the most recent individual life tables published by the Society of
7 Actuaries (“SOA”) – Valuation Basic Table (“VBT”) 2015. The tables are published
8 for various Relative Risks (“RR”) meaning risks relative to a standard block of
9 underwriting. I used the Relative Risk weightings of 100% reflecting the standard
10 2015 VBT Table.

11 23. The 2015 VBT table is a 25-year select and ultimate mortality table meaning
12 that, for a given attained age, a lower mortality rate is ascribed to the policies more
13 recently issued. After the 25-year period, all issue ages are grouped together. For the
14 purpose of my analysis, I assumed the average policy was in its 9th duration since
15 the earliest policies were issued in 2002, 21 years earlier.

16 24. I did not assume any future mortality improvement, particularly the given
17 recent increase in nationwide mortality due to the COVID-19 pandemic.

18 **1.2 Lapse, and Surrenders**

19 25. As shown in the above table, 9,702 Class Policies lapsed and 7,547 Class
20 Policies were surrendered. Since either of these 2 policy statuses have the same effect
21 on my valuation, I will group these together as a single termination. Accordingly,
22 the Class Policies include a total of 17,249 terminations compared to 18,749 In Force
23 policies, which implies an over 6% average termination rate over the past 10 years.

24 26. The Class Policies in early durations (years 1-15) likely had higher lapse rates
25 than later durations. As I am projecting forward the lapse rate assumptions, I am
26 using a lower than early duration average number of 1% reflecting typical long-
27 duration experience and the fact that lapse rates tend to decrease by duration.
28

27. This rate incorporates both lapse and surrender rates into a single termination rate without payment of a death benefit and, as such, they are suitable for projections of death benefit for the purpose of valuing the Non-Contestability Benefit.

1.3 Contested Success Probability and Pay-out Rates of Resisted Claims

28. The In-Force Class Policies have been in force for more than 2 years and are all outside of their contestable periods. This means that the risk that AmGen would contest payment of a death claim for reasons such as suicide or inaccuracy in medical statements has now passed. An alleged lack of insurable interest or STOLI now presents the main reason why AmGen would choose not to pay a death benefit claim.

29. By entering into this Settlement, AmGen is foregoing the option to take part in STOLI and/or other misrepresentation litigation related to an alleged lack of insurable interest, and foregoing the amounts that it would save (and which Policy beneficiaries would not receive). The Non-Contestability Benefit thus provides payment certainty on the Class Policies.

30. To determine the value of this settlement, I analyzed AmGen’s experience with resisted claims as filed by them in their NAIC Annual Statement. The following is their experience for 2013 through 2022:

Annual Statement Year	Direct Claims³	Resisted Claims⁴	AmGen Resisted Ultimately Paid⁵	AmGen Claim Reduction through Resistance	Percentage Reduction of Direct Claims through Resistance
2013	\$2,330,762,489	\$95,138,281	\$56,258,332	\$38,879,949	1.6681%
2014	2,377,473,491	50,624,917	31,155,324	19,469,593	0.8189%
2015	2,461,401,476	43,998,651	28,472,052	15,526,599	0.6308%
2016	2,491,004,799	27,778,090	13,485,760	14,292,330	0.5738%
2017	2,603,026,924	9,097,074	6,454,866	2,642,208	0.1015%
2018	2,563,823,446	100,000	58,500	41,500	0.0016%
2019	2,917,523,814	1,409,106	1,337,106	72,000	0.0025%
2020	2,853,991,046	756,750	732,254	24,496	0.0009%

³ Direct Claims NAIC Annual Statement Page 17 Line 1.1 Column 3.

⁴ Claims Resisted NAIC Annual Statement Schedule F Line 0199999 column 5.

⁵ Claims Resisted NAIC Annual Statement Schedule F Line 0199999 column 6.

2021	3,511,378,168	1,217,013	1,218,175	(1,162)	0.0000%
2022	3,197,079,641	23,690,652	23,690,652	0	0.0000%
Total	27,307,465,294	253,810,534	192,863,021	90,947,513	0.3330%

31. I used the overall percentage of claims reduction of 0.3330% to value the Settlement relief by multiplying it by the present value of expected claims. This percentage is conservative for the valuation conducted, as it includes *all* claims reductions; not just those for an alleged lack of insurable interest.

1.4 Discount Rates

32. To determine the discount rate, I used the average rate AmGen earned on their Universal Life reserves in 2022 as follows:

Item	Amount	Annual Statement Source
1.UL Reserves 12/31/21	\$6,490,193,047	Page 7.1 Line 1 Column 6
2.UL Reserves 12/31/22	\$6,141,618,754	Page 7.1 Line 15 Column 6
3.Average UL Reserves	\$6,315,905,901	(1. + 2.) / 2.
4.Net Investment Income	\$245,564,730	Page 6.1 Line 3 column 6
5.Average Rate of Return	3.888%	4. / 3.

F. Section 2 - Results

2.1 Non-Contestability Benefit Valuation

33. To determine the value of the Non-Contestability Benefit, I performed a probability weighted net present value calculation using the assumptions set forth above. I utilized the data provided to project for the Class Policies’ death benefits for the period from January 31, 2023 to maturity. The projection includes the future probability of lapsing a policy, starting at January 31, 2023, using the lapse rate assumption described in section 1.2. I assumed a starting balance of death benefits given the in-force data as of December 31, 2022, and rolled this balance forward to January 31, 2023, using the mortality and the lapse rate assumptions described at section 1.1 and 1.2.

34. The total present value of death benefits expected to be paid over the next 40 years using my assumptions and calculation is \$2,775,092,462.12. Using AmGen’s historical experience of reductions for resisting claims of 0.3330%, a reasonable expected value for AmGen forgoing contesting the validity of a Class Policy pursuant to the Non-Contestability Benefit is \$9,242,445.43

35. Estimates of legal expenses incurred in resisting policies were not considered.

G. Section 3 – Impact of Opt Outs

36. I understand that the opt-out period is still open, and that some of the Class Policies may opt out of the Settlement by the opt out deadline. If any Class Members with In-Force Policies opt out of the class, the value of the Non-Contestability Benefit will decrease. Because the number of opt outs is unknown at this point, the analysis in this declaration assumes zero opt outs beyond those already identified to me by Class Counsel. An adjustment for opt-outs could be made by multiplying the Face Amount of the opting-out policies to the total Face Amount of the Class Policies.

H. Conclusion

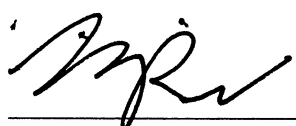
37. Using the methodology and assumptions set forth above as well as our own expertise in the subject matter, I calculated the values of the Non-Contestability Benefit. A summary of my findings is set forth in the table below.

Commitment	Value \$
Validity Confirmation	\$9,242,445.43
Total	\$9,242,445.43

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed on April 3, 2023, at Punta Gorda, FL.

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Philip J. Bieluch, FSA, MAAA

EXHIBIT A

PHILIP J. BIELUCH, FSA, MAAA

1347 Thrasher Dr.

Punta Gorda, FL 33950

phil@bieluch.com

(860) 997-8100

EDUCATION

B. S. Computer Coordinated with Mathematics – 1976
Trinity College, Hartford, CT

Post-graduate work in actuarial science – 1977 - 1979
Northeastern University, Boston, MA

Fellow, Society of Actuaries – 1981

Society of Actuaries, Schaumburg, IL

Chartered Life Underwriter – 1981
American College, Bryn Mawr, PA

Chartered Financial Consultant – 1984
American College, Bryn Mawr, PA

EXPERIENCE

January 2014 to
Current

Independent Consultant
Punta Gorda, FL Business Registration 23-00018744

Activities involved financial analysis, payout annuity modelling in UK market, reinsurance analysis, merger & acquisition advisory, health insurance and litigation support. Practice includes working with companies in the US, Bermuda, Barbados, Canada, Ireland and Hong Kong/China.

May 2012 to
December 2013

Cambrian Re Ltd.

Chief Actuary assisting in the formation of a new Bermudian reinsurer.

Registered Representative for Cambrian Re with the Bermuda Monetary Authority.

Assisted the trade organization, BILTIR, with the formation of capital standards for Long-Term Insurers and evaluated the impact on Cambrian Re.

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Priced several transactions both as company acquisitions and reinsurance of in-force business in life and health insurance.

October 2002 to
April 2012

Independent Consultant

Worked on actuarial aspects insurance class actions.

Consultant in the evaluation of life insurance companies.

Consultant to a national bank on insurance operations.

Consultant to a start-up reinsurer on a mortality standard.

Consultant to a major world-wide management-consulting firm on an earnings model of life insurance company earnings on a US GAAP and US statutory accounting basis.

Consultant to a major US stock life insurer on an earnings model for entering the life settlement business.

Consulted on the health insurance rate filings.

Consultant on state examinations of insurance companies.

January 2001 to
September 2002

Hampton Re Limited, Hamilton, Bermuda
Senior Vice President and Chief Actuary,
Corporate Secretary

Involved in the start-up of a Bermuda based reinsurer that maintained 100% of its capital in hedge funds.

Responsible for all aspects of pricing block reinsurance transactions including development of mortality standards for various books of business and asset selection.

Responsible for developing reserves for in-force transactions

May 1998 to
December 2000

Bieluch & Associates, Southborough, Massachusetts

Worked on development of reinsurance standards for start-up reinsurer.

Worked on actuarial aspects insurance class actions.

1 1994 to April 1998 MANULIFE FINANCIAL, Boston, Massachusetts
2 Vice President, Strategic Development, U.S. Operations

3 Member of steering committee on individual insurance distribution
4 reorganization working with Monitor Company to reduce field expenses
5 while increasing production. All strategies implemented and production
6 increased by over 100% in the next 4 years.

7 Provided analysis and discussions with potential takeover candidates in
8 the United States.

9 Member of mortality table development committee.

10 1992 to MANULIFE FINANCIAL, Toronto, Ontario
11 1994 Assistant Vice President, Corporate Insurance Products

12 Managed a department of 10 and lead the launch of the variable life
13 insurance product for the elective deferred compensation market.

14 Supervised underwriting of Corporate Owned Life Insurance and
15 guaranteed issue standards.

16 1986 to TILLINGHAST – TOWERS PERRIN, Hartford, CT
17 1992 Principal

18 Consulted to corporations concerning the purchase of life insurance.

19 Consulted on acquisitions of various blocks of business.

20 Consulted on policyholder tax matters.

21 Developed participating and interest sensitive life insurance products and
22 software for life insurance companies.

23 1982 to DELTA ACTUARIES, INC., Hartford, CT
24 1985 President

25 Consulted to 25 insurance organizations on product development, life
26 insurance sales and administration systems.

27 1980 to SECURITY-CONNECTICUT LIFE
28 1981 Assistant Actuary

1973 to SORENSEN & ASSOCIATES, Hartford, CT
1979 HUGGINS AND COMPANY, Hartford, CT
Consulting Practice

COVENANT LIFE INSURANCE COMPANY, Hartford, CT

II. Books and Other Publications

Author - BNA Portfolio 546-1st: Annuities, Life Insurance, and Long-Term Care Insurance Products, published April 2000.

Co-Author - Enterprise Risk Management, 2006 Edition, published by ACTEX Study Materials.

Co-Author – The Actuary Vol. 38, no. 3: Managing the risks from variable annuities-the next phase, published March 2004.

Professional Activities – Society of Actuaries

Fellow, Society of Actuaries, 1981

Position	Start Date	End Date	Description
Chairperson	5-82	5-82	Workshop on Computer Requirements of Interest Sensitive and Variable Products
Chairperson	10-82	10-82	Workshop on Universal Life-Stock Companies
Moderator	10-83	10-83	Microcomputers for Users
Moderator	5-87	5-87	PD Corporate-Owned Life Insurance
Panelist	5-88	5-88	PD Executive Compensation
Panelist	10-88	10-88	PD Are Current Product Illustrations Supportable?
Member	11-88	10-89	Individual Annuity Experience Committee
Discussion Author	12-88	12-88	The Definition of Life Insurance Under Section 7702 of the Internal Revenue Code
Member	11-88	10-91	Spring Individual Life and Annuities Examination
Vice Chairman	11-89	10-90	Individual Annuity Experience Committee
Author	3-90	3-90	The Actuary – SFAS-96 - Overview
Chairman	11-90	10-09	Individual Annuity Experience Committee
Member	11-90	10-92	Committee on Experience
Chairperson	6-91	6-91	Workshop on COLI Trends
Vice Chairman	11-91	10-93	Spring Individual Life and Annuities Examination in charge of I-443U Committee
Moderator	10-92	10-92	PD Emerging Tax Issues
Member	11-92	10-93	Committee on Life Insurance & Annuity Experience
Moderator	6-93	6-93	PD Impact of Low Interest Rates
Member	11-93	10-95	Finance PA Professional Education & Development Committee
Member	11-96	10-97	Life Practice Advancement Committee
Member	11-02	2-05	Life Practice Advancement Committee
Member	5-03	9-07	Valuation Actuary Symposium Committee
Panelist	9-03	9-03	42PD Continuing Education Requirements
Associate Editor	11-03	10-05	Editorial Board – The Actuary
Member	7-04	10-04	Structured Settlement Valuation Committee
Moderator	9-04	9-04	23TS – Hedging and Other Mitigation Techniques
Panelist	10-06	10-06	065PD Life Settlements and the Future
Participant	10-07	2-09	Blue Ocean Strategies in Technology for Business Acquisition by the Life Insurance Industry
Member	11-07	10-10	Forecasting and Futurism Section Council
Member	11-08	10-09	Spring Meetings Program Committee
Member	10-09	10-10	Life and Annuity Symposium Committee

Position	Start Date	End Date	Description
Panelist	5-10	5-10	022 – Predictable or Unpredictable? Forecasting in the 21 st Century
Friend	11-10	10-11	Forecasting and Futurism Section Council

Other Professional Qualifications

Member - American Academy of Actuaries – 1979
Chartered Life Underwriter – 1978
Chartered Financial Consultant - 1981
Certified Computing Professional #033466 - 1981