NAIC Staff Comments:

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| **Dates:** Received | Reviewed by Staff | Distributed | Considered |
| 5/6/2019 |  |  |  |
| **Notes:** VM APF 2019-53 (CA OPBR APF-DM) | | | |

**Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force**

**Amendment Proposal Form**

1. Identify yourself, your affiliation and a very brief description (title) of the issue.

Staff of Office of Principle-Based Reserving, California Department of Insurance,   
Clarify types of smoothing that are permitted in developing company experience mortality rates.

2. Identify the document, including the date if the document is “released for comment,” and the location in the document where the amendment is proposed:

Valuation Manual (January 1, 2019 edition, as amended by approved APF 2018-42), VM-20 Sections 9.C.2.g and 9.C.6.c

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted or changed by providing a red-line (turn on “track changes” in Word®) version of the verbiage. (You may do this through an attachment.)

See attached Appendix. These proposed changes are for clarification only and as such are **non-substantive in nature.**

4. State the reason for the proposed amendment? (You may do this through an attachment.)

See attached Appendix.

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#### Appendix

#### ISSUE:

Add clarifying language to ensure that smoothing is not done in a way that results in understated company experience mortality rates, as requested by some LATF members during the LATF discussion when APF 2018-42 was adopted.

Additional language is added to the language that was added in VM-20 Section 9.C.2.g by APF 2018-42. Also, VM-20 Section 9.C.6.c should have a clarifying sentence that any smoothing to adjust for relationships within a segment should be done in a way that does not cause an understatement in expected claims, like 9.C.6.d does when discussing smoothing to adjust for cross-segment relationships.

For reference, VM-20 Section 9.C.6.d states:

The company may adjust the resulting mortality rates within each mortality segment to ensure the resulting prudent estimate produces a reasonable relationship with assumptions in other mortality segments that reflects the underwriting class or risk class of each mortality segment. **Such adjustments must be done in a manner that does not result in a material change in total expected claims for all mortality segments in the aggregate. (emphasis added)**

We have used similar language for consistency in VM-20 Sections 9.C.2.g and 9.C.2.d.

#### SECTION:

VM-20 Sections 9.C.2.g and 9.C.2.d

#### REDLINE:

#### VM-20 Section 9.C.2.g

Company experience mortality rates shall be based on amount of insurance, not number of policies. The amounts of insurance used in the numerators of the mortality rates shall be computed consistently with how the amounts in the denominators are calculated. A ceiling on the amount of insurance for a given policy is not permitted. Smoothing and graduation may generally be used in developing company experience mortality rates if it is done in a manner that does not result in a material change in total expected claims. However, in the case of catastrophic, non-recurring events, this does not preclude actuarially appropriate adjustments to company experience mortality rates, even if such adjustments result in a material change in total expected claims.

#### VM-20 Section 9.C.6.c

#### Smoothing may be used within each mortality segment to ensure that an appropriate relationship exists by attained age within each mortality segment. Such smoothing must be done in a manner that does not result in a material change in total expected claims for the mortality segment.

#### REASONING:

See issue statement.