Actuarial Guideline (*VAED*)

Background:

Beginning in 2015, the NAIC commissioned a study of the reserve and RBC framework for Variable Annuity products. The study concluded that the existing requirements resulted in non-economic volatility, providing incentive for companies to engage in the use of financial planning techniques that the NAIC deemed inappropriate. Considerable effort was spent to develop and test updates to the reserve and RBC framework to address these issues. That revised framework was adopted by the NAIC during 2018, and the changes to NAIC models, the NAIC Valuation Manual, and the NAIC Life RBC instructions have been developed and adopted by the NAIC on August [xx], 2019. By the provisions of the SVL (Model 820), the changes to the Valuation Manual will be effective on January 1, 2020 and impact subsequent financial statements.

During the discussion of the Framework by the Variable Annuities Issues Working Group, the question was raised whether companies would have the option to ‘early adopt’; that is, to apply the new framework for the reserve and RBC values used for the December 31, 2019 financial statements. Since the new framework has been determined to provide improved financial measurement of the company’s liability and risk, there was agreement that optional application of the new framework for the December 31, 2019 financial statements would be appropriate.

Guideline:

A company may elect to apply the VM-21 requirements from the 2020 NAIC *Valuation Manual* as the *Valuation Manual* requirements for the valuation on December 31, 2019. For such election, the phase-in provision of *Valuation Manual* VM-21 Section 2.B. may not be elected. Any company electing early adoption of VM-21shall also:

1. apply the provisions of Actuarial Guideline XLIII as amended for 2020 to the December 31, 2019 valuation of contracts within the scope of that guideline,
2. apply the Life RBC instructions for 2020 in the calculation of C-3 RBC in LR027 for 2019,
3. follow the documentation and certification requirements of VM-31 from the 2020 Valuation Manual for the Variable Annuity Business. In the VA Summary, clearly indicate the use of the new requirements in the section on change in methods from prior year, and
4. notify the Commissioner of the state of domicile of such elections.