**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 when capping of face amounts is appropriate

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, 2018 edition), with NAIC Adoptions through August 8, 2017,   
VM-20 Section 9.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.

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

See attached Appendix.

NAIC Staff Comments:

|  |  |  |  |
| --- | --- | --- | --- |
| **Dates:** Received | Reviewed by Staff | Distributed | Considered |
| 12/13/18 |  |  |  |
| **Notes:** **VM APF 2018-42 (CA APF BU) rev 2** | | | |

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#### Appendix

#### ISSUE:

The Valuation Manual does not currently address the topic of capping amounts of insurance in mortality-related calculations.

#### SECTION:

VM-20 Sections 9.C.2 and 9.C.4

**(For 9.C.2, two options are shown)**

#### REDLINE:

**Section 9.C.2**

ALTERNATIVE 1:

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 different set of company experience mortality rates is permitted to be used for pre-reinsurance calculations of modeled reserves than for post-reinsurance calculations.

h. Mortality improvement shall not be incorporated beyond the valuation date. However, historical mortality improvement from the central point of the underlying company experience data to the valuation date may be incorporated.

ALTERNATIVE 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.

h. Mortality improvement shall not be incorporated beyond the valuation date. However, historical mortality improvement from the central point of the underlying company experience data to the valuation date may be incorporated.

**Section 9.C.4.a**

*Where,*

*A = Sum of expected deaths by amount = Σ (amount insured) x (exposure) x (mortality)*

*B = Σ(amount insured)2 x (exposure) x (mortality) C = Σ(amount insured)2 x (exposure)2 x (mortality)2*

*C = Σ(amount insured)2 x (exposure)2 x (mortality)2*

For both the Limited Fluctuation Method and the Buhlmann Empirical Bayesian Method, the credibility percentage shall be based on amounts of insurance, uncapped.

#### REASONING:

Provide clarifying detail on how regulators would expect calculations to be performed.