**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 NPR Term Lapse Rates rules

1. 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) , VM-20 Sections 3.B and 3.C.3.b

1. 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.

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

See attached Appendix.

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NAIC Staff Comments:

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| --- | --- | --- | --- |
| **Dates:** Received | Reviewed by Staff | Distributed | Considered |
|  |  |  |  |
| APF 2018-48 (CA BW), rev. 1/24/2019 | | | |

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#### ISSUES:

1. Need for clear rules about reinsurance assumed on a YRT basis
2. Proper handling of term riders
3. Proper handling of paid-up term

#### SECTIONS:

VM-20 Sections 3.B and 3.C.3.b

#### REDLINE:

#### VM-20 Section 3.B.4

4. For all policies and riders within the Term Reserving Category other than those addressed in Section 3.B.8 below, the NPR on any valuation date shall be equal to the actuarial present value of future benefits less the actuarial present value of future annual valuation net premiums as follows:

a. The annual valuation net premiums shall be a uniform percent of the respective adjusted gross premiums, described in Section 3.B.4.b, such that at issue the actuarial present value of future valuation net premiums shall equal the actuarial present value of future benefits plus an amount equal to $2.50 per $1,000 of insurance for the first policy year only.

**Guidance Note**: When calculating the present values under Section 3.B.4.a.i and Section 3.B.4.a.ii, benefits and premiums during the years following the end of the level term period should be projected assuming that the policies subject to the shock lapse in each year do not pay the higher premium in that year.

A shock lapse is deemed to have occurred in any year for which the prescribed lapse rate is greater than or equal to 25%. Valuation net premiums for policy years after a shock lapse shall be limited and may result in two uniform percentages, one applicable to policy years prior to that shock lapse and one applicable to policy years following that shock lapse. However, for policies with more than one shock lapse, only one shock lapse shall be subject to such treatment, namely the one that would produce the largest ratio ii/i as computed below before any such percentages are applied. For these policies, these percentages shall be determined as follows:

**VM-20 Section 3.B.5**

1. For all policies and riders within the ULSG Reserving Category prior to the point when all secondary guarantee periods have expired, the NPR shall be determined in Section 3.B.6 below. Once all secondary guarantee periods have expired, the NPR shall, subject to the floors specified in Section 3.D.2, be the reserve calculated in Section 3.B.5.a through Section 3.B.5.g below. A reserve shall be determined by the policy features and guarantees of the policy without considering any secondary guarantee provisions. The reserve shall be calculated as follows:

**VM-20 Section 3.B.6**

6. For all policies and riders within the ULSG Reserving Category the NPR shall be determined as follows. Prior to the point when all secondary guarantee periods have expired, the NPR shall, subject to the floors specified in Section 3.D.2, be the greater of the reserve amount determined according to Section 3.B.5, assuming the policy has no secondary guarantees, and the reserve amount for the policy determined according to the methodology and requirements in Section 3.B.6.b through Section 3.B.6.e below.

**(new) VM-20 Section 3.B.8**

8. For life insurance coverage that the company has assumed on a Yearly Renewable Term basis, the reinsurer’s net premium reserve shall be one half year’s cost of insurance for the reinsured net amount at risk.

#### VM-20 Section 3.C.3.b

1. For NPR amounts calculated according to Section 3.B.4, the annual lapse rates used shall vary by level premium period as stated below:
   * 1. 10% per year during any level premium period of less than five years, except as noted in iii, v, and vi.
     2. 6% per year during any level premium period of five or more years, except as noted in iii, iv, v, and vi.
     3. For any policy that provides an endowment benefit at the end of an initial level premium period that is materially less than the policy face amount, such as a return of premium benefit, , the annual lapse rate is 6% for the first half of the initial level premium period and 0% for the remainder of the initial level premium period except the final year thereof.

**Guidance Note**: Therefore, the first 0% lapse rate would, for example, be at the end of year 11 for a 20 year level plan and at the end of year 8 for a 15 year level plan.

* + 1. 10% per year during any premium paying period after an initial level premium period of less than five years except as noted in v and vi.
    2. 0% per year for any policy whose final premium has by then been payable.
    3. The lapse rate for the final year of a level premium period, applied after any benefit assumed payable in the final year, and prior to the payment of the increased premium rate, shall be determined based on the length of the level premium periods before and after the increase, as well as the percent increase in the gross premium (including policy fee) per $1000 of face amount as shown in the table below instead of what would otherwise apply from i through v above.

|  |  |  |  |
| --- | --- | --- | --- |
| Length of Level Premium Period Prior to Increase | Length of Level Premium Period After Increase | Percent Increase in Gross Premium per  $1000 | Lapse Rate for the Final Year of the Level Premium Period  (Shock Lapse) |
| 1<PP≤5 | 1 | Any | 50% |
| 1<PP≤5 | 1<PP | Any | 25% |
| 5<PP≤10 | 1 | < 400% | 70% |
| 5<PP≤10 | 1 | > 400% | 80% |
| 5<PP≤10 | 1<PP≤5 | Any | 50% |
| 5<PP≤10 | 5<PP | Any | 25% |
| 10<PP | 1 | < 400% | 70% |
| 10<PP | 1 | > 400% | 80% |
| 10<PP | 1<PP≤5 | Any | 70% |
| 10<PP | 5<PP | Any | 50% |
|  |  |  |  |

#### REASONING:

Greater clarity.