**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,   
 Provide further clarity with respect to lapse rates to be used in VM-20 Section 3.B.6.

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), VM-20 Section 3.C.3.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.**

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 |
|  |  |  |  |
| **Notes:** VM APF 2018-63 (CA APF-CP), revised 1/26/2019 | | | |

W:\National Meetings\2015\...\TF\LHA\

#### Appendix

#### ISSUE:

VM-20 clarity.

The subscript t as used in VM-20 Section 3.B.6.d represents a duration at a point in time (the valuation date) that is not a whole number of years.

The subscript t as used in VM-20 Section 3.B.6.c.ii is an index, i.e., these t’s are always whole numbers.

This leads, potentially, to a bit of confusion in VM-20 Section 3.C.3.c.ii.

#### SECTION:

VM-20 Section 3.C.3.c.ii

#### REDLINE:

ii. As of the valuation date, which is t years after issue, the annual lapse rate for the policy shall be assumed to be level for all future years and denoted as *Lx+t,* which shall be set equal to:

*Lx+t =Rx+t •* 0.01 + (1 – *Rx+t* ) • 0.005• *rx+t*

Where *rx+t* is the ratio determined in Section 3.B.5.d.ii.

**Guidance Note:** By similar logic, it follows (from ASGx+t being 0 when t=0) that the level annual lapse rate to be used in the calculations in Section 3.B.6.c.ii and 3.B.6.c.iii is 1%. On the other hand, when performing the calculations in Section 3.B.6.d.iii, *Lx+t,*though level, is not generally equal to what it was for the same policy on the previous valuation date.

#### REASONING:

Make it very clear that the constant lapse rate used in the as-of-issue calculations differs from the constant lapse rate used in the calculations done as of the valuation date.