Exposure of APF 2018-66

Delete VM-20, Section 2.D to clarify that policies that policies that pass an exclusion test remain subject to PBR requirements.

Note: This proposal directly conflicts with APF 2019-03, which is exposed concurrently. Only one of the APFs can be adopted.

Send comments to Reggie Mazyck (RMazyck@naic.org) before COB Mar. 7, 2019

**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.

 John Robinson FSA, Director PBR – Valuation Actuary, Minnesota Department of Commerce

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 Jan 1, 2019 edition

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.)

Delete VM-20, Section 2.D in its entirety. Move Section 2.H to replace Section 2.D.

In addition, a corresponding deletion is applied in the second paragraph of Section II.B.

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

Suppose that DR and SR are not required for a group of policies because of “passing” the exclusion tests.  To infer that this group of policies is NOT subject to principle-based valuation, is FALSE, because the exclusion tests are part of PBR, and the exclusion tests results are required to be part of the PBR Report (VM-31, Section 3.C.10).

Alternatively, if the intent had nothing to do with the exclusion tests, such as where policies are subject to VM-A or VM-C, then the statement provides no useful guidance.

Consequently, I propose that this Section 2.D be deleted. Replace Section 2.D with Section 2.H to maintain the structure and references pertaining to Section 2.

\* This form is not intended for minor corrections, such as formatting, grammar, cross–references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

NAIC Staff Comments:

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| --- | --- | --- | --- |
| **Dates:** Received | Reviewed by Staff | Distributed | Considered |
| 11/27/18 |  |  |  |
| **Notes:** VM APF 2018-66 rev. 2\_5\_19 |

**Section 2: Minimum Reserve**

A. All policies subject to these requirements shall be included in one of the product groups defined by Section 2.A.1, Section 2.A.2 and Section 2.A.3 below. The company may elect to exclude one or more groups of policies from the stochastic reserve calculation and/or the deterministic reserve calculation. When excluding a group of policies from a reserve calculation, the company must document that the applicable exclusion test defined in Section 6 is passed for that group of policies. The minimum reserve for each product group is defined by Section 2.A.1, Section 2.A.2 and Section 2.A.3, and the total minimum reserve equals the sum of the Section 2.A.1, Section 2.A.2 and Section 2.A.3 results below, defined as: 1. Term Policies —All term policies are to be included in Section 2.A.1.b unless the company has elected to exclude a group of policies from the stochastic reserve calculation and has applied the stochastic exclusion test (SET) defined in Section 6, passed the test and documented the results. a. For the group of term policies subject to Section 3.A.1 for which the company did not compute the stochastic reserve: the sum of the policy minimum NPRs for those policies plus the excess, if any, of the deterministic reserve for those policies determined pursuant to Section 4 over the quantity (A–B), where A = the sum of the policy minimum NPRs for those policies, and B = any due and deferred premium asset held on account of those policies.

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D.

The reserves for supplemental benefits and riders shall be calculated consistent with the requirements for “Riders and Supplemental Benefits” in Section II–*Reserve Requirements*.

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Section II.B, page 7, second paragraph:

Minimum reserve requirements of VM-20 are considered principle-based valuation requirements for purposes of the Valuation Manual.