**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 expense allowance formulas in VM-20 Sections 3.B.5 and 3.B.6

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.5 and 3.B.6

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:

|  |  |  |  |
| --- | --- | --- | --- |
| **Dates:** Received | Reviewed by Staff | Distributed | Considered |
| 1/7/19 |  |  |  |
| **Notes:** VM APF 2019-04 (CA APF AQ rev. 3) rev. 02152019 | | | |

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# Appendix

#### ISSUE:

#### Clarification of expense allowance formulas for ULSG.

1. The subscript t as used in VM-20 Sections 3.B.5.d and 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.5.b and 3.B.6.c.ii is an index, i.e. these t’s are always whole numbers.

This contributes to possible confusion as to what Ex+t means for non-integer values of t.

3. The colon in is red and should be made black.

#### SECTIONS:

VM-20 Sections 3.B.5 and 3.B.6

#### REDLINE:

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

The expense allowance shall be amortized over the period during which premiums are permitted to be paid. *Ex+t*, the expense allowance balance, as of the end of policy year t, shall be calculated as follows :

= 𝑉𝑁𝑃𝑅 ⦁ for t < s

= 0 for t ≥ s

Where:  
  
t = 1,2,.. (number of completed years since issue)

= 0 when t = 1

= when 2 ≤ t ≤ 5

= when t > 5

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

* + 1. For a policy issued at age *x,* at any durationt, the net premium reserve shall equal:

Where:

* + - 1. = the actuarial present value of future benefits less the actuarial present value of future valuation net premiums and less the unamortized expense allowance for the policy,.

**Guidance Note:** For a non-integer value of t, is obtained by taking the present value at duration t of , where T is the next higher integer, i.e., entails discounting by valuation interest and survivorship for the fractional year between the valuation date and the next anniversary (T - t).

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

The expense allowance shall be amortized over the span of years in the secondary guarantee period during which premiums are permitted to be paid. *Ex+t*the expense allowance balance as of the end of policy year t, shall be computed as follows :

for t < v

= 0 for t ≥ v

Where:

t = 1,2,.. (number of completed years since issue)

*VNPR = Valuation Net Premium Ratio from 3.B.6.c.iii*

= 0 when t = 1

= when 2≤ t ≤5

when t>5

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

The NPR for an insured age x at issue at time t shall be according to the formula below:

**Guidance Note:** For a non-integer value of t, is obtained by taking the present value at duration t of , where T is the next higher integer, i.e., entails discounting by valuation interest, mortality, and lapse for the fractional year between the valuation date and next anniversary (T - t).

REASONING:

#### Added clarity.