**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.

This APF was jointly prepared by the Staff of Office of Principle-Based Reserving, California Department of Insurance and NAIC Support Staff.

This APF addresses recommendations 20 and 21 from VAWG’s 10/24/2018 memo regarding PBR Recommendations and Referrals to LATF.

**Note:**

**APF 2019-06 has dependencies on a future APF to address VAWG Recommendation #6, in which VM-31 Section 3.C.1.a will require a spreadsheet containing all anticipated experience assumptions, margins, and prudent estimate assumptions used in the model.** Because of this, these two APFs should be adopted together. APF 2019-06 references the revised Section 3.C.1.a as the place where commissions and acquisition expenses should be provided, and it deletes VM-31 Section 3.C.5.c (Inflation) to avoid redundancy with the revised Section 3.C.1.a.

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 Section 9.E.1.n, VM-31 Section 3.C.5

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.)

Please see Appendix attached.

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

Please see attached Appendix.

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NAIC Staff Comments:

|  |  |  |  |
| --- | --- | --- | --- |
| **Dates:** Received | Reviewed by Staff | Distributed | Considered |
| 1/30/19 |  |  |  |
| **Notes:** VM APF 2019-06 (CA OPBR/NAIC PBR) | | | |

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# Appendix

#### ISSUE:

#### Regulators need greater assurance that expenses have been fully allocated and that any relevant acquisition expenses have been taken into account. Also, correct a wrong section reference in VM-20 Section 9.E and delete VM-31 Section 3.C.5.c (Inflation) to avoid redundancy with VM-31 Section 3.C.1.

#### SECTIONS:

VM-20 Section 9.E.1, VM-31 Section 3.C.5

#### REDLINE:

VM-20 Section 9.E.1.n

n. For policies sold under a new policy form or due to entry into a new product line, the company shall use expense factors that are consistent with the expense factors used to determine anticipated experience assumptions for policies from an existing block of mature policies taking into account:

i. Any differences in the expected long-term expense levels between the block of new policies and the block of mature policies.

ii. That all expenses must be fully allocated as required under Section 9.E.1.i above.

VM-31 Section 3.C.5

5. Expenses – The following information regarding the expense assumptions used by the company in performing a principle-based valuation:

* + 1. Allocating Expenses to PBR Policies – Methodology used to allocate expenses to the individual life insurance policies subject to a principle-based valuation, and a statement confirming that expenses have been fully allocated in accordance with VM-20 Section 9.E.1.i.

b. Allocating Expenses to Model Segments – Methodology used to apply the allocated expenses to model segments or sub-segments within the cash-flow model.

c. Commissions and Acquisition Expenses – One of the following statements, as applicable, confirming the company’s treatment of commissions and acquisition expenses pursuant to VM-20 Sections 7.B.1.e and 9.E.1.m:

1. There are no future commissions or acquisition expenses associated with business in force as of the valuation date and therefore none are included in the model.
2. There are future commissions and acquisition expenses associated with business in force as of the valuation date, and these have been provided in response to Section 3.C.1.a.
3. There are future commissions associated with business in force as of the valuation date, and these have been provided in response to Section 3.C.1.a. There are no future acquisition expenses associated with business in force as of the valuation date and therefore none are included in the model.
4. There are future acquisition expenses associated with business in force as of the valuation date, and these have been provided in response to Section 3.C.1.a. There are no future commissions associated with business in force as of the valuation date and therefore none are included in the model.

d. Spreading of Costs – Identification of types of costs that were spread, and for how many years, if any cost spreading was done pursuant to VM-20 Section 9.E.1.b.

e. Expense Margins – Methodology used to determine margins.

#### REASONING:

Several VM-31 reports for 2017 left regulators uncertain as to whether the fully-allocated requirement had been met.