**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 Office of Principle-Based Reserving, California Department of Insurance, and NAIC Support Staff.

The APF addresses recommendation #28 from VAWG’s 10/24/2018 memo regarding PBR Recommendations and Referrals to LATF. It also provides clarity in VM-20 Section 8.D.2.

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 8.D.2 and

VM-31 Section 3.C.10.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.

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 |
| 1/30/19 |  |  |  |
| **Notes:** VM APF 2019-10 (CA OPBR/NAIC PBR) | | | |

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#### Appendix

#### ISSUE:

VM-31 specifies that SERT results should be reported, but currently does not state that those results are needed on both a pre-reinsurance and post-reinsurance basis. Also, VM-20 Section 8.D.2 needs clarity.

#### SECTION:

VM-20 Section 8.D.2 and VM-31 Section 3.C.10.c

#### REDLINE:

**VM-20 Section 8.D.2**

1. The pre-reinsurance-ceded minimum reserve shall be calculated pursuant to the requirements of VM-20, using methods and assumptions consistent with those used in calculating the minimum reserve, but excluding the effect of ceded reinsurance.
   1. If, on a pre-reinsurance-ceded basis, a group of policies is not able to pass the exclusion tests pursuant to Section 6, then the required deterministic or stochastic reserves shall be calculated in determining the pre-reinsurance-ceded minimum reserve, even if not required for the minimum reserve.
   2. The company shall use assumptions that represent company experience in the absence of reinsurance—for example, assuming that the business was managed in a manner consistent with the manner that retained business is managed—when computing such exclusion tests and reserves.
   3. The requirement in Section 7.D.3 regarding the 98% to 102% collar does apply when determining the amount of starting assets excluding the effect of ceded reinsurance.

**VM-31 Section 3.C.10.c**

c. SERT – For groups of policies for which the SERT is used, the following data on a post-reinsurance-ceded basis calculated in accordance with VM-20 Section 6.A.2 and on a pre-reinsurance-ceded basis calculated in accordance with VM-20 Section 8.D.2:  
i. The adjusted deterministic reserve for each of the 16 scenarios;

ii. The values of a, b, and c;

iii. The value of the test ratio (b-a)/c.

#### REASONING:

Clarity.