**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.

This APF addresses recommendation #33 from VAWG’s 10/24/2018 memo regarding PBR Recommendations and Referrals to LATF.

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, inserting Guidance Note following Section 6.A.2.a

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 the attached Appendix.

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

Please see the attached Appendix.

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NAIC Staff Comments:

|  |  |  |  |
| --- | --- | --- | --- |
| **Dates:** Received | Reviewed by Staff | Distributed | Considered |
|  1/30/19 |  |  |  |
| **Notes:** VMAPF 2019-13 (CA OPBR/NAIC PBR) |

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# Appendix

#### ISSUE:

#### In the 2017 PBR Actuarial Reports, several companies incorrectly described the numerator in the SERT as the biggest difference from the base scenario. The numerator should be the largest adjusted DR for scenarios other than the base scenario, minus the adjusted DR for the base scenario (scenario 9). Using the biggest difference from the base scenario can result in an incorrect SERT ratio.

#### SECTIONS:

VM-20, Section 6.A.2.a

#### REDLINE:

VM-20 Section 6.A.2.a

2. Stochastic Exclusion Ratio Test

a. In order to exclude a group of policies from the stochastic reserve requirements using the method allowed under Section 6.A.1.a, a company shall demonstrate that the ratio of (b–a)/c is less than 6% where:

i. a = the adjusted deterministic reserve described in Section 6.A.2.b.i using economic scenario 9, the baseline economic scenario, as described in Appendix 1.E.

ii. b = the largest adjusted deterministic reserve described in Section 6.A.2.b.i under any of the other 15 economic scenarios described in Appendix 1.E.

iii. c = an amount calculated from the baseline economic scenario described in Appendix 1.E that represents the present value of benefits for the policies, adjusted for reinsurance by subtracting ceded benefits. For clarity, premium, ceded premium, expense, reinsurance expense allowance, modified coinsurance reserve adjustment and reinsurance experience refund cash flows shall not be considered “benefits,” but items such as death benefits, surrender or withdrawal benefits and policyholder dividends shall be. For this purpose, the company shall use the benefits cash flows from the calculation of quantity “a” and calculate the present value of those cash flows using the same path of discount rates as used for “a.”

**Guidance Note:** Note that the numerator should be the largest adjusted DR for scenarios other than the baseline economic scenario, minus the adjusted DR for the baseline economic scenario. This is not necessarily the same as the biggest difference from the adjusted DR for the baseline economic scenario, or the absolute value of the biggest difference from the adjusted DR for the baseline economic scenario, both of which could lead to an incorrect test result.

#### REASONING:

#### The guidance note will provide additional clarity so that companies can determine the appropriate ratio.