**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 prepared jointly by NAIC Support Staff and the Office of Principle-Based Reserving, California Department of Insurance. The APF addresses VAWG recommendation #32.

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 2.A and 3.D

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.

Note: The term “product group” will be replaced with “Reserving Category” if APF 2018-55 is adopted for the January 1, 2020 edition of the Valuation Manual.

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 |
|  4/19/19 |  |  |  |
| **Notes:** VM APF 2019-43 (CA OPBR\_NAIC PBR) |

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# Appendix

#### ISSUES:

#### Lack of clarity on rules for NPR floor and for due/deferred premium calculations, which has resulted in inconsistent interpretation and ultimately inconsistent reporting among companies. SSAP 51 specifies that deferred premiums are based on the net (“reduced by loading”) premium. In the NPR for Term, the year one valuation net premiums are zero and so due/deferred premiums are also zero.

1. While most companies interpreted VM-20 Section 3.D as applying a simple (½)cx floor or something equivalent, some others did not. We propose revising to go with the (½)cx type of approach for simplicity and consistency with common practice in the NPR.

#### SECTIONS:

VM-20 Sections 2.A and 3.D

#### REDLINE:

(new) Section 2.A.1.c

c. The due and deferred premium asset, if any, shall be based on the valuation net premiums computed in accordance with Section 3.B.4.a, for the base policy, determined without regard to any NPR floor amount from Section 3.D.1.

**Guidance Note:** This may not be the case for riders that use a different reserving method.

(new) Section 2.A.2.c

1. The due and deferred premium asset, if any, shall be based on the valuation net premiums computed in accordance with Section 3.B.5, for the base policy, determined without regard to any NPR floor amount from Section 3.D.2.

Section 3.D

1. NPR Calculation and Cash Surrender Value Floor

1. For policies other than universal life policies, the NPR shall not be less than the greater of:

 a. The cost of insurance to the next anniversary, or alternatively one-half year’s cost of insurance. The cost of insurance for this purpose shall be based on the policy year in which the valuation date falls, using the mortality tables for the policy prescribed in Section 3.C.

 b. The policy cash surrender value calculated as of the valuation date and in a manner that is consistent with that used in calculating the NPR on the valuation date.

2. For a universal life policy, the NPR shall not be less than the greater of:

* 1. The amount needed to cover the cost of insurance to the next processing date on which cost of insurance charges are deducted with respect to the policy. The cost of insurance for this purpose shall be based on the policy year in which the valuation date falls, using the mortality tables for the policy prescribed in Section 3.C and shall be based upon the net amount at risk. “Cost of insurance” as used here refers to the valuation mortality rate, not the UL policy’s contractual cost of insurance or expense charges.

* 1. The policy cash surrender value calculated as of the valuation date and in a manner that is consistent with that used in calculating the NPR on the valuation date.

#### REASONING:

1. Clarity
2. Simplicity
3. Consistency among companies