Exposure of APF 2019-50

ACLI 3/27/19 VA Framework Implementation

This APF exposes for public comment Appendices 1-3 of the ACLI letter submitted on 3/27/19, reviewed at the Spring National Meeting. Appendix 3 was later revised to include Alice Fontaine’s recommended edits. Those edits are highlighted as part of this exposure. The edits proposed in Appendix 4 are addressed in APF 2019-45 and are not part of this exposure.

Exposed for public comment through May 14, 2019

Comments can be sent to Reggie Mazyck ([RMazyck@NAIC.Org](mailto:RMazyck@NAIC.Org))



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March 27, 2019

Mr. Mike Boerner

Chair – NAIC Life Actuarial Task Force

Re: Exposed VA Framework Implementation Documents

Dear Mr. Boerner:

The ACLI[[1]](#footnote-2) is pleased to submit the following comments to the Life Actuarial Task Force (LATF) on behalf of our member companies regarding the exposed revisions to VM-01, VM-21, VM-31, and Actuarial Guideline XLIII exposed by LATF on March 11, 2019. We appreciate the exposure of these documents with the revisions needed to implement the Variable Annuity Framework previously adopted by the NAIC. We look forward to this new framework being implemented to establish an improved basis for the development of statutory reserve and RBC values. In this letter we outline a few issues in VM-21 that go beyond simple clarifications and we provide specific language in the Appendices. We plan to separately send a list of clarifying and non-substantive edits to the various documents.

1. Section 1.D. – Definition of Total Asset Requirement

The Total Asset Requirement (TAR) is used as a standard when a company chooses to substitute non-prescribed generators for the prescribed generator when developing scenarios for stochastic modeling. This is the only use of the term. As such, we believe that both based on its nature and for easier calculation, TAR should be focused on stochastic values, stochastic reserve plus the C3-RBC based on the stochastic calculations, each excluding the additional standard projection and prior to any adjustments for phase-in and/or smoothing of RBC. In Appendix 1 we provide a modified definition for VM-21 and will provide similar language for the RBC – C3P2 instructions when that is exposed.

1. Section 2.B. – Phase-in

We agree that a material change in business should prompt a modification to the phase-in, but the current language is vague about what an appropriate adjustment would be. We propose to include some guidance on the adjustment as noted in Appendix 2.

1. Section 2.B. – Early Adoption

We support allowing early adoption of this improved framework. During various discussions, regulators have questioned whether the different parts of the framework would all need to be adopted consistently. In order to clarify the standards for early adoption, we recommend expanding the provision in VM-21 Section 2.B. to specify that the various components all need to be adopted concurrently and documented appropriately. Please see Appendix 2 for specific language.

1. Section 4.D.4.c. – Limitation on Borrowing Cost

When the VAIWG discussed this issue, it is our understanding that the decision was made to parallel the VM-20 investment guidance, with two issues to be referred to LATF for further consideration as to their appropriateness for both life insurance and variable annuities. The maximum net spread on future investments (50% A / 50 % AA portfolio) is consistent with VM-20, but limitation on assumed borrowing costs is unique to VM-21. We believe this limit on borrowing should be removed until there is a review by LATF to include a fuller discussion of the intent and specific language used as there is a concern about unintended consequences.

1. Section 6.C.6. and 10.:

The standard projection generally does not allow consideration of future premiums. In order to capture the value of certain benefits that could have value with minimal funding of the contract, a calculation shortcut of requiring the benefit to continue in-force when it might otherwise have expired has been prescribed. We believe it is important that certain features such as roll-up of values still be allowed to expire based on the contract terms even when the underlying benefit must be assumed to continue. Please see Appendix 3 for specific language.

1. Section 6.C.: Mortality in Additional Standard Projection Amount

During the development of the Framework by the Variable Annuities Issues Working Group (VAIWG), ACLI had recommended that the proposed prescribed mortality assumption be modified to reflect more recent industry experience. The principle VAIWG established to develop the Standard Projection was to use average industry experience unless that experience was not credible, and then to be conservative. The VAIWG decision was to use the Oliver Wyman proposal until credible experience was developed to demonstrate need for a change. ACLI will be presenting information at the meeting on April 4 showing that experience does justify modifying the prescribed assumption, but also noting that the SOA anticipates providing an updated mortality study later in 2019. The presentation will then provide LATF with the option to either retain the Oliver Wyman proposal for 2020, and utilizing the SOA study as additional information to update as needed for 2021, or to update it for 2020 based on available information, then review for possible further updates for 2021 based on the SOA study.

1. Section 11. - Mortality Assumptions when the company lacks Credible Experience

In VM-21 Section 11 the requirements are defined for mortality assumptions based on company experience. Oliver Wyman had recommended that the 2012 IAM with projection be the basis for industry experience to be used when a company lacks credible experience. During drafting, regulators modified that to use the 2012 IAM with projection for minus segments, but inserted use of the 1994 MGDB table for plus segments. Since the 1994 MGDB table is an outdated table that was developed as an interim standard and not based on a specific study, ACLI recommends that the 2012 IAM with projection table adjusted by attained age to reflect recent experience be used as the industry experience table. Appendix 4 provides specific language.

We appreciate the opportunity to raise these issues for discussion.

Very truly yours,

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cc: Reggie Mazyck, NAIC

**Appendix 1**

VM-21 Section 1.D. – Definition of Total Asset Requirement

1. The term “total asset requirement” (TAR) means the sum of the reserve determined from the requirements for the stochastic reserve (Section 4) not including any additional standard projection amount and prior to any adjustment for the elective phase-in plus the risk-based capital amount from LR027 step 2 (paragraph B) excluding the additional standard projection amount and prior to any adjustment for phase-in or smoothing.

**Appendix 2**

Revision to VM-21 Section 2.B.

B. Effective Date and Phase-in

These requirements apply for valuation dates on or after January 1, 2020. A company may elect to phase in these requirements over a 36-month period beginning January 1, 2020. A company may elect a longer phase-in period, up to 7 years, with approval of the domiciliary commissioner. The election of whether to phase in and the period of phase-in must be made prior to the December 31, 2020 valuation. At the company’s option, a phase-in may be terminated prior to the originally elected end of the phase-in period; the reserve would then be equal to the unadjusted reserve calculated according to the requirements of VM-21 applicable for valuation dates on or after January 1, 2020. If there is a material decrease in the book of business by sale or reinsurance ceded, the company shall adjust the amount of the phase-in provision. The phase-in amount (C = R1 – R2 as described below) must be scaled down in proportional to the reduction in the excess reserve, measured on the effective transaction date as the reserve amount in excess of cash surrender value before and after the impact of the transaction. The company must obtain approval from the domestic commissioner for any other modification of the remaining phase-in amount. The method to be used for the phase-in calculation is as follows:

**{Material omitted to conserve space.}**

A company may elect to apply these requirements applicable for valuation dates on or after January 1, 2020 as the NAIC method for the valuation on December 31, 2019. For such election, the phase-in provision of Section 2.B. may not be elected. Any company electing early adoption of VM-21 shall also:

1. apply the provisions of Actuarial Guideline XLIII as amended for 2020 to the December 31, 2019 valuation of contracts within the scope of that guideline,
2. apply the Life RBC instructions for 2020 in the calculation of C-3 RBC in LR027 for 2019,
3. follow the documentation and certification requirements of VM-31 from the 2020 Valuation Manual for the Variable Annuity Business. In the VA Summary, clearly indicate the use of the new requirements in the section on change in methods from prior year, and
4. notify the Commissioner of the state of domicile of such elections.

**Appendix 3**

Section 6.C.3.g - The GAPV for a GMDB that terminates at a certain age or in a certain contract year shall be calculated as if the GMDB does not terminate. (Benefit features such as guaranteed growth in the GMDB benefit basis may be calculated so that no additional benefit basis growth occurs after the GMDB termination age or date defined in the contract.)

Section 6.C.10.c - If the contract has any other guaranteed benefits, including a GMDB, the contract shall remain in-force. If the guaranteed benefits contractually terminate upon account value depletion, such termination provisions are assumed to be voided in order to approximate the contract holder’s retaining adequate Account Value to maintain the guaranteed benefits in-force. At the option of the company, fees associated with the contract and guaranteed benefits may continue to be charged and modeled as collected even if the account value has reached zero. While the contract must remain in-force, benefit features may still be terminated according to contractual terms other than account value depletion provisions.

**Appendix 4**

VM-21 Section 11: Mortality Assumptions

B.3. No Data Requirements

When little or no experience or information is available on a business segment, the company shall use expected mortality curves that would produce expected deaths no less than the 2012 IAM Basic Mortality Table with projection scale G2 adjusted by Table 1 for a plus segment and expected deaths no greater than the 2012 IAM Basic Mortality Table with projection scale G2 adjusted by Table 1 for a minus segment.

Table 1

|  |  |  |
| --- | --- | --- |
| **Age** | **Minus Segments** | **Plus Segments** |
| <=65 | 80% | 100% |
| 75 | 95% | 120% |
| 85 | 110% | 110% |
| 100 | 110% | 110% |
| >=105 | 100% | 100% |

Values should be linearly graded for ages not shown.

C.1. Adjustment for Credibility

The expected mortality curves determined in Section 11.B shall be adjusted based on the credibility of the experience used to determine the curves in order to arrive at prudent estimate mortality. The adjustment for credibility shall result in blending the expected mortality curves with a mortality table consistent with a statutory valuation mortality table. The table shall be consistent with the 2012 IAM Basic Mortality Table with projection scale G2 adjusted by the factors of Table 1 in Section 12.B.3. The approach used to adjust the curves shall suitably account for credibility.

1. The American Council of Life Insurers (ACLI) advocates on behalf of 280 member companies dedicated to providing products and services that promote consumers’ financial and retirement security. 90 million American families depend on our members for life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, dental and vision and other supplemental benefits. ACLI represents member companies in state, federal and international forums for public policy that supports the industry marketplace and the families that rely on life insurers’ products for peace of mind. ACLI members represent 95 percent of industry assets in the United States.  Learn more at [www.acli.com](http://www.acli.com)  [↑](#footnote-ref-2)