**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 recommendation #23, #24, and #31 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 Section 7.E.1.g, VM-31 Section 3.C.6.r, VM-31 Section 3.C.6.s, VM-31 Section 3.C.13.a, and VM-G Section 3.A.6.d.ii.

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.)

See attached Appendix.

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

See attached Appendix.

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NAIC Staff Comments:

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| --- | --- | --- | --- |
| **Dates:** Received | Reviewed by Staff | Distributed | Considered |
|  |  |  |  |
| **Notes:** VM APF 2018-53 (CA APF-CD) revised 4/4/19 |

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# Appendix

#### ISSUE:

#### It may not be completely clear that in setting up the alternative investment strategy, maturity lengths of the alternative assets should be comparable to those in the company’s real investment strategy.

Also, the following VAWG Recommendations were made to address issues found during the review of the 2017 PBR Actuarial Reports:

* VAWG #23: Disclose the asset maturities used in the alternative investment strategy and whether these are in line with the company’s actual reinvestment strategy, regardless of which strategy is ultimately used in the final valuation
* VAWG #24: Document whether the company investment strategy or the alternative strategy produces a higher reserve
* VAWG #31: Modify the required language in the certification from the investment officer on investments to encompass both the company strategy and the alternative investment strategy.

#### SECTION:

#### VM-20 Section 7.E.1.g

#### VM-31 Sections 3.C.6.r and 3.C.6.s

#### VM-31 Section 3.C.13.a

#### VM-G Section 3.A.6.d.ii

#### REDLINE:

VM-20 Section 7.E.1.g

g. Notwithstanding the above requirements, the modeled reserve shall be the higher of that produced by the model investment strategy and that produced by substituting an alternative investment strategy in which the fixed income reinvestment assets have the same WAL as the reinvestment assets in the model investment strategy and are all public non-callable corporate bonds with gross asset spreads, asset default costs and investment expenses by projection year that are consistent with a credit quality blend of 50% PBR credit rating 6 (A2/A) and 50% PBR credit rating 3 (Aa2/AA).

Policy loans, equities and derivative instruments associated with the execution of a clearly defined hedging strategy (in compliance with Section 7.L) are not affected by this requirement.

**Guidance Note:** VM-31 requires a demonstration of compliance with VM-20 Section 7.E.1.g. In many cases, particularly if the model investment strategy does not involve callable assets, it is expected that the demonstration of compliance will not require running the reserve calculation twice. For example, an analysis of the weighted average net reinvestment spread on new purchases by projection year (gross spread minus prescribed default costs minus investment expenses) of the model investment strategy compared to the weighted average net reinvestment spreads by projection year of the alternative strategy may suffice. The assumed mix of asset types, asset credit quality or the levels of non-prescribed spreads for other fixed income investments may need to be adjusted to achieve compliance.

VM-31 Sections 3.C.6.r and 3.C.6.s

r. Modeled Company Investment Strategy and Reinvestment Assumptions – Description of the modeled company investment strategy used in the demonstration of compliance required by VM-31 Section 3.C.6.s, including asset reinvestment and disinvestment assumptions, and documentation supporting the appropriateness of the modeled company investment strategy compared to the actual investment policy of the company.

s. Modeled Investment Strategy – Documentation demonstrating compliance with VM-20 Section 7.E.1.g, showing that the modeled reserve is the higher of that produced using the modeled company investment strategy and the alternative investment strategy.

VM-31 Section 3.C.13.a and 3.C.13.b

a. Investment Officer on Investments – A certification from a duly authorized investment officer that the modeled company investment strategy is representative of and consistent with the company’s investment policy, .

b. Qualified Actuary on Investments – A certification by a qualified actuary, not necessarily the same qualified actuary that has been assigned responsibility for the PBR Actuarial Report or this sub-report, that the modeling of any clearly defined hedging strategies was performed in accordance with VM-20 and in compliance with all applicable ASOPs and the alternative investment strategy as defined in VM-20 Section 7.E.1.g reflects the prescribed mix of assets with the same WAL as the reinvestment assets in the company investment strategy.

VM-G Section 3.A.6.d.ii

ii. The certifications from the Investment Officer on Investments and Qualified Actuary on Investments, as provided in VM-31 Sections 3.C.13.a and 3.C.13.b.

#### REASONING:

#### Clarity. (Note: The deleted sentence near the end of VM-20 Section 7.E.1.g seemed not to be serving any purpose.)

VM-20 Section 7.E.1.g, VM-31 Section 3.C.6.r, and VM-31 Section 3.C.6.s address VAWG recommendations #23 and #24.

VM-31 Section 3.C.13.a address VAWG recommendation #31. Changes to VM-G Section 3.A.6.d.ii are proposed for purposes of consistency.