**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 recommendations #18, #29, #30, and the third drafting consideration in #5 from VAWG’s 10/24/2018 memo regarding PBR Recommendations and Referrals to LATF. It also adds reporting requirements for PIMR.

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) with adopted amendments (APF 2018-54 and APF 2019-05) to VM-31 Section 3.C.11.k.

This APF is editing VM-31 Section 3.C.11.

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:

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| --- | --- | --- | --- |
| **Dates:** Received | Reviewed by Staff | Distributed | Considered |
| 2/26/19 |  |  |  |
| **Notes:** APF 2019-15 | | | |

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# Appendix

#### ISSUE:

The following VAWG recommendations were made to address issues found during the review of the 2017 PBR Actuarial Reports:

* VAWG #18: Provide evidence that the lapse margin increases the reserve.
* VAWG #29: State whether sensitivity testing was done using prudent estimate or anticipated experience assumptions.
* VAWG #30: Provide the dates used to calculate NPR, DR, and SR, along with the date of the assets, liabilities, yield curve, spreads, and default costs.
* VAWG #5 (drafting consideration): State the VM-20 Section 2.G requirement in VM-31

Comments embedded within the redline section indicate the applicable VAWG recommendation addressed by each section.

This APF adds reporting requirements on how PIMR was derived and allocated among model segments.

#### SECTIONS:

VM-31, Section 3.C.11

#### REDLINE:

11. Additional Information – The following additional information:

1. Impact of Margins for Each Risk Factor –For each group of policies for which a separate deterministic reserve is calculated, the impact of margins on the deterministic reserve for each risk factor, or group of risk factors, that has a material impact on the deterministic reserve, determined by subtracting (i) from (ii):

i. The deterministic reserve for that group of policies, but with the reserve calculated based on the anticipated experience assumption for the risk factor and prudent estimate assumptions for all other risk factors.

ii. The deterministic reserve for that group of policies as reported.

Guidance Note: By definition, margins must increase the reserve, so the impact of each margin, as calculated by subtracting (i) from (ii) above, must be positive.

d. Sensitivity Tests – For each distinct product type for which margins were established:

i. List the specific sensitivity tests performed for each risk factor or combination of risk factors;

ii. Indicate whether the reserve was calculated based on the anticipated experience assumptions or prudent estimate assumptions for all other risk factors while performing the tests;

iii. Provide the numerical results of the sensitivity tests; and

iv. Explain how the results of sensitivity tests were used or considered in developing assumptions.

Guidance Note: If a model segment contains multiple distinct product types (e.g. ART, Level Term), (i) through (iv) should be done for each product.

h. Calculations as of the Valuation Date – The following information:

i. A statement confirming that the NPR was calculated based on policies inforce as of the valuation date; and

ii. If the DR and/or SR were calculated as of the valuation date, a statement confirming that the calculations were based on the following items: policies inforce, starting assets, and the starting yield curve as of the valuation date, and the prescribed Table A and Tables F through J in effect on the valuation date.

1. Calculations as of a Date Preceding the Valuation Date – If the DR and/or SR were calculated as of a date preceding the valuation date (i.e. if the dates of any of the items listed in Section 3.C.11.h.ii preceded the valuation date):

i. The dates used for each item listed in Section 3.C.11.h.ii, separately for the DR and/or SR.

ii. A description of the methodology used to determine the adjustment required by VM-20 Section 2.E, along with the adjustment amount and an explanation that justifies why it produces a reserve that is not materially less than a reserve calculated as of the valuation date.

j. Approximations, Simplifications, and Modeling Efficiency Techniques – A description of each approximation, simplification, or modeling efficiency technique used in reserve calculations, and a statement that the required VM-20 Section 2.G demonstration is available upon request and shows that 1) the use of each approximation, simplification, or modeling efficiency technique does not understate the reserve by a material amount, and 2) the expected value of the reserve is not less than the expected value of the reserve calculated that does not use the approximation, simplification, or modeling efficiency technique.

k. ULSG Detail – Breakdown of ULSG reserve results (NPR, DR, and SR) into Variable UL, Indexed UL, and regular UL components, both pre- and post-reinsurance, along with case counts and face amounts.

Any given UL policy is to be classified in its entirety as either Variable UL, Indexed UL, or regular UL. If a ULSG policy satisfies the definition of a variable life insurance policy (even if it contains options for indexed funds or fixed funds), that policy should be classified as variable for this VM-31 reporting purpose. If it does not, but it satisfies the definition of an Indexed UL policy, it should be classified as Indexed.

l. PIMR – Description of the methodology used to derive the PIMR balance on the projection start date and allocate it among the model segments, and the dollar amount of each such portion of PIMR.

#### REASONING:

These edits to VM-31 will fulfill the listed recommendations from VAWG.