

Amendments for the 2024 Valuation Manual
for the Consideration of
the Life Insurance and Annuities (A) Committee
July 19, 2023

LATF VM Amendment	Valuation Manual Reference	Valuation Manual Amendment Proposal Descriptions	LATF Adoption Date	Page Number
2022-06	VM-31 Section 3.D.5	This amendment adds in a VM-31 requirement to disclose the inflation assumption for Life PBR.	10/6/22	3
2022-07	VM-20 Section 3.C.1.g, VM-20 Section 6.B.5.d.	This amendment clarifies the intent and calculation of the mortality adjustments to the CSO table when anticipated mortality exceeds the prescribed CSO table. The current wording of Section 3.C.1.g has led to confusion by many and a lack of consistent interpretations.	1/26/23	6
2022-08	VM-21 Section 3.E, VM-31 Section 2.A, VM-G Section 1 and Section 4.A.3.	Clarify requirements on groups of contracts that use the Alternative Method/AG33 in VM-21 and are not subject to a principles-based valuation. Such contracts should not be subject to VM-G but still require a sub-report under VM-31.	1/26/23	12
2022-09	VM-21 and VM-31	This amendment includes a series of reporting requirement enhancements related to VM-21 and fixes some errors in the VM language.	3/2/23	16
2022-10	VM-20 Section 2.A.2, Section 3.B.5, and Section 3.B.6	The purpose of this amendment is to add language to address the possibility of policies in the ULSG Reserving Category having a non-material secondary guarantee, and thus becoming excluded from both DR and SR calculations if they pass both the DET and the SET.	2/23/23	22
2023-02	VM-21 4.D.1.a	This amendment adds disclosure requirements in VM-31 and clarifies language in the Annual Statement Instructions related to reporting in the VM-20 Reserves Supplement.	2/23/23	25
2023-03	VM-20 Section 7.E.2 and Guidance Note below, VM-21 Section 4.D.4.c, VM-20 Section 7.K.3, VM-31 Section 3.D.6.f, VM-20 Section 9.A.4	This amendment would do the following: <ul style="list-style-type: none"> • Add a consideration on the assumed cost of borrowing in VM-20 and VM-21, • Clarification of VM-20 hedge modeling, and • Add additional considerations for risk factors other than interest and equities that are stochastically modeled. 	3/21/23	29
2023-01	VM-21 4.D.1.a	The purpose of this amendment is to make the explanation of the starting asset amount consistent in VM-21 section 4.D.1.a.	3/21/23	34
2023-04	VM-31 Section 3.D.3.l.iv	Clarifies requirements where regulators were seeing an issue with PBR Actuarial Reports and inadequate support showing compliance with the requirement that “the company experience mortality rates shall not be lower than the mortality rates the company expects to emerge”.	4/20/23	36
2021-08	VM-51 Section 2.D.	Revisions to VM-51 to allow for the data experience reporting observation calendar year to be one year prior to the reporting calendar year.	5/11/23	39
2023-05	VM-01, VM-21 Section 4.A.4, VM-21 Section 9, VM-21 Section 9.C.2, VM-31 Section 3.F.8.d	Since the reforms of VM-21 and C3P2, ILVA products have experienced major market growth. Several carriers, with the agreement of regulators and auditors, have interpreted the current VM-21 guidance as permitting the effects of index credit hedging to be reflected in product cash flows instead of within the “best efforts” and “adjusted” scenarios. This amendment clarifies those requirements.	6/1/23	42
2023-07	VM-21 Section 6.A.1	The standard projection amount drafting group found that there is very little use of the Company-Specific Market Path (CSMP) method for the VM-21 standard projection amount. Therefore, we recommend removing this method from VM-21 starting in 2025, which gives time to transition for the few companies that currently employ the CSMP method.	6/1/23	49

APF 2022-06

<u>Dates: Received</u>	<u>Reviewed by Staff</u>	<u>Distributed</u>	<u>Considered</u>
5/12/22	RM		
Notes: APF 2022-06			

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.

Staff of Office of Principle-Based Reserving, California Department of Insurance – VM-31 reporting of inflation assumption.

2. 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, 2022 edition), with NAIC Adoptions through August 17, 2021: VM-31 Section 3.D.5

3. 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.

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

Please see attached Appendix.

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Appendix

ISSUE:

VM-31 contains no specific mention of a requirement to disclose the inflation assumption for Life PBR.

SECTIONS:

VM-31 Section 3.D.5.f

REDLINE:

(new)

f. Inflation – Assumed rate(s) of inflation and the underlying rationale/derivation, including any consideration given to making distinctions between short term and long term inflation rates.

REASONING:

1. Restore mention of inflation rate assumption to VM-31 that had originally been there.
2. Have more consistency between Life and VA. The VA part of VM-31 does mention inflation.
3. Recognize that the recent uptick in the inflation rate may drive a desire/need for duration-specific inflation rates in PBR models.
4. Although VM-31 Section 3.D.1.a does refer to a website containing an optional template that includes mention of inflation, this falls short of mandating that inflation be covered in the company's VM-31 report.

APF 2022-07

Dates: Received	Reviewed by Staff	Distributed	Considered
11/18/22, updated 12/14	SO		
APF 2022-07			

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.

Brian Bayerle, ACLI – Clarification of adjustments to mortality for policies subject to the NPR and for policies that pass the Life PBR Exemption when anticipated experience exceeds the prescribed CSO table.

2. 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, 2022 edition), VM-20 Section 3.C.1.g, VM-20 Section 6.B.5.d.

3. 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.

12/14/22 Update: The redline indicates changes from the Valuation Manual. Redline sections that are highlighted indicate changes from the previous 9/8/22 exposure. Some deletions of text that was added in the 9/8/22 version but deleted in the 12/14/22 exposure were not included in the redline below, including the removal of mortality rate capping language from sections 3.C.1.g.i and 3.C.1.g.ii and replacement into section 3.C.1.g.ii.a and the deletion of references to “FUW” policies in the guidance note.

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

The purpose of this proposed amendment is to clarify the intent and calculation of the mortality adjustments to the CSO table when anticipated mortality exceeds the prescribed CSO table. The current wording of Section 3.C.1.g has led to confusion by many and a lack of consistent interpretations. The APF does not change the current requirements of VM-20, it only provides clarification. This APF revises the edits made by APF 2018-57.

There are five questions the APF is trying to answer:

1. **What policies are intended to be addressed by Section 3.C.1.g?**

The primary intent of Section 3.C.1.g is to address the higher anticipated mortality for policies that are not subject to full underwriting (FUW), such as simplified issue policies and final expense policies. It is typical for these types of policies to have mortality experience worse than the CSO table, and thus, an adjustment is necessary.

The intent of Section 3.C.1.g. is not to test every possible FUW subset (e.g., attained age blocks, individual underwriting classes with lower credibility, etc.) to determine if its mortality experience is higher than the CSO table even though more aggregate mortality experience is lower than the CSO table. However, if a large, credible block or subset of FUW policies (e.g., a block of FUW business assumed from another company that has significantly different mortality experience than the rest of the assuming company’s FUW business, or a large block of business from an era when the company had significantly more permissive underwriting, etc.) is expected to have worse experience than the CSO table, then the adjustments in 3.C.1.g should be made.

A guidance note has been added following Section 3.C.1.g. to provide this clarification.

2. **What is meant by the current language in Section 3.C.1.g that the “adjustments should be consistent with the adjustments made for the DET Net Premium test” in Section 6.B.5.d?**

This wording has led to a lot of confusion. Some have interpreted this wording to mean that the adjustment factors should be the same as those defined in Section 6.B.5.d. Others have concluded that this means the form of the adjustments should be the same. Others have concluded that this means the same methodology should be used to determine the adjustments. And if the company does not elect to use the DET, there are no adjustment factors to be consistent with.

This APF clarifies that for the group of policies where the DET has been elected, the methodology to test whether adjustments are needed should be consistent with Section 6.B.5.d (that is, using a comparison of the PV of future death claims) and a reasonably consistent approach should be used to determine the adjustment factors). For groups of policies where the DET has not been elected, a reasonably consistent approach should be used.

3. **Are the adjustments to the CSO table in Section 3.C.1.g determined on a seriatim basis or can policies be grouped to determine the adjustments?**

The current wording is not clear as to whether the adjustments are determined on a seriatim basis or grouped basis, resulting in inconsistent interpretations. This APF clarifies that the adjustments to the CSO table for the NPR calculation are to be determined using a group of policies (consistent with the approach used in Section 6.B.5.d), not on a seriatim basis. Since the NPR is calculated on a policy-by-policy basis, the application of the adjustments must be applied to each policy on a seriatim basis, but the factors themselves can be determined using a group of policies.

Determining the adjustment factors on a seriatim basis is inconsistent with determining mortality experience for any other purpose. When data is not credible, the resulting mortality rates may not be smooth or consistent. For example, if the anticipated experience for male age 50 results in an adjustment factor of 1.3, but the adjustment factor for male age 48 is 2.1 (based on limited non-credible data), this results in the mortality rate for male 48 being higher than the rate for male 50.

This APF clarifies that the determination of the adjustment factors in Section 3.C.1.g. is to be done on a grouped basis. However, similar to the DET requirement, a company may not group together policies with significantly different risk profiles.

4. **How do the requirements of Section 3.C.1.g apply to policies that pass the Life PBR Exemption?**

Policies that pass the Life PBR Exemption are still subject to the requirements of Section 3.C.1 (per Section II.G.4 of the Valuation Manual). But Section 3.C.1.g includes references to the NPR and the DET which do not apply to these policies. To clarify, section 3.C.1.g. has been split into two sections: 1) policies that pass the Life PBR Exemption and 2) policies that are not utilizing the Life PBR Exemption and are subject to the NPR requirements. For policies that pass the Life PBR Exemption, all references to the NPR and DET have been removed.

5. **How do the requirements in Section 3.C.1.g. apply when calculating deficiency reserves?**

Policies that pass the Life PBR Exemption still must determine deficiency reserves, which has led to confusion on how the requirements of section 3.C.1.g apply when determining deficiency reserves. Section 3.C.1 is based on the basic reserve calculation (Section 3.B.6). Once the valuation mortality rates have been adjusted (if needed) by Section 3.C.1.g for the basic reserve, then the calculation of X-factors for the deficiency reserve follows the normal approach as described in VM-A and VM-C. This APF clarifies that the mortality adjustment in 3.C.1.g only applies to the basic reserve for policies that pass the Life PBR Exemption, and not the deficiency reserve.

Deficiency reserves are not needed for policies that are not utilizing the Life PBR Exemption. The NPR for policies other than term and ULSG equals the basic reserve defined in VM-A and VM-C, the NPR for term

and ULSG follow the requirements of Section 3.4 and 3.5, and the DR and SR calculations already reflect the circumstances that give rise for the need for a deficiency reserve.

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Section 3: Net Premium Reserve

C. Net Premium Reserves Assumptions

- 1.g For a group of policies where the anticipated mortality experience ~~materially~~ exceeds the prescribed CSO mortality rates determined in Section 3.C.1.a through 3.C.1.d~~f~~ above, the company shall adjust the CSO mortality rates as follows:
- i. For policies that pass the Life PBR Exemption, the CSO mortality rates used to determine the basic reserve for each policy shall be adjusted in a manner commensurate with the anticipated mortality experience for the policies. The methodology used to test whether adjustments are needed can be performed on an aggregate basis for the group of policies using a reasonable method to compare the respective mortality rates, such as comparing the present value of future death claims discounted at the valuation interest rate used for VM-A and VM-C. However, for the purposes of this comparison, a company may not group together policies with significantly different risk profiles. If an adjustment is needed, the determination of the adjustment factors should use a reasonable methodology, subject to a cap that ensures that mortality rates do not exceed 1,000 per 1,000.
 - ii. For policies where the Life PBR Exemption is not utilized, the CSO mortality rates used in the NPR calculation shall be adjusted in a manner commensurate with the anticipated mortality experience for the policies.
 - a) When the company elects to use the DET in Section 6.B for a group of policies, the methodology used to test whether adjustments are needed should be consistent with the methodology used in Section 6.B.5.d (that is, using a comparison of the PV of future death claims discounted at the valuation rate used for the NPR) . For the purposes of this comparison, a company may not group together policies with significantly different risk profiles. If an adjustment is needed, the determination of the adjustment factors should use a reasonably consistent methodology to the one used in Section 6.B.5.d., subject to a cap that ensures that the mortality rates do not exceed 1,000 per 1,000.
 - b) For the group of policies where the DET is not used, the company should use a reasonably consistent approach to the one described in paragraph a) above to test whether adjustments are needed and to determine the adjustment factors. The resulting adjustment factors are not required to be identical to the adjustment factors determined in paragraph a) above.

The resulting NPR must not be lower than the NPR calculated without adjustments to the CSO mortality rates.

Guidance Note: It is anticipated that the 3.C.1.g adjustments are generally applicable but not limited to policies with limited underwriting, such as simplified issue or final expense. The intent of Section 3.C.1.g. is not to test every possible group of policies (e.g., attained age blocks, individual underwriting classes with lower credibility, etc.) to determine if its mortality experience is higher than the CSO table even though more aggregate mortality experience is lower than the CSO table. However, if a large, credible block or group of policies (e.g., a block of business assumed from another company that has significantly different mortality experience than the rest of the assuming company's business, or a large block of business from an era when the company had significantly more permissive underwriting, etc.) is expected to have worse experience than the CSO table, then the adjustments in 3.C.1.g should be made.

Section 6: Stochastic and Deterministic Exclusion Tests

B. Deterministic Exclusion Test (DET)

5.d. If the anticipated mortality for the group of policies exceeds the prescribed CSO mortality rates for the NPR determined in Section 3.C.1.a through 3.C.1.g, then the company shall use anticipated mortality to determine the valuation net premium. For this purpose, mortality shall be measured as the present value of future death claims as of the valuation date discounted at the valuation interest rate used for the NPR.

APF 2022-08

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.

Brian Bayerle, ACLI – Clarify requirements on groups of contracts that use the Alternative Method/AG33 in VM-21 and are not subject to a principles-based valuation. Such contracts should not be not subject to VM-G but still require a sub-report under VM-31.

2. 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 Jan. 1, 2023 Edition; VM-21 Section 3.E, VM-31 Section 2.A, VM-G Section 1 and Section 4.A.3.

3. 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.

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

There is some ambiguity about the governance requirements if a principles-based valuation is not performed.

* This form is not intended for minor corrections, such as formatting, grammar, cross-references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
11/4/22	SO		
Notes: APF 2022-08			

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VM-21

Section 3: Reserve Methodology

E. Alternative Methodology

For a group of variable deferred annuity contracts that contain either no guaranteed benefits or only GMDBs—i.e., no VAGLBs—the reserve may be determined using the Alternative Methodology described in Section 7 rather than using the approach described in Section 3.C and Section 3.D. However, in the event that the approach described in Section 3.C and Section 3.D has been used in prior valuations for that group of contracts, the Alternative Methodology may not be used without approval from the domiciliary commissioner.

The reserve for the group of contracts to which the Alternative Methodology is applied shall not be less than the aggregate cash surrender value of those contracts.

Groups of contracts to which the Alternative Methodology is applied are only subject to the applicable requirements for the Alternative Methodology in VM-21. Groups of contracts to which the Alternative Methodology is applied are subject to the applicable sub-report requirements outlined in VM-31 Sections 3.E and 3.F. Groups of contracts to which the Alternative Methodology is applied are not subject to the requirements of VM-G Sections 2 and 3.

VM-31

Section 2: General Requirements

- A. Each year a company shall prepare, under the direction of one or more qualified actuaries, as assigned by the company under the provisions of VM-G, a PBR Actuarial Report if the company computes a deterministic reserve or stochastic reserve or performs an exclusion test for any policy as defined in VM-20, or computes an aggregate reserve for any contract as defined in VM-21.

A company that does not compute any deterministic or stochastic reserves under VM-20 for a group of policies as a result of the policies in that group passing the exclusion tests as defined in VM-20 Section 6 must still develop a sub-report for that group of policies that addresses the relevant requirements of Section 3.

A company that computes reserves under the Alternative Methodology defined in VM-21 must still develop a sub-report with the applicable requirements to the Alternative Methodology for that group of policies that addresses the relevant requirements of Section 3.

VM-G

Section 1: Introduction, Definition and Scope

- A. The corporate governance guidance provided in VM-G is applicable only to a principle-based valuation calculated according to methods defined in VM-20 and VM-21, except for the following condition:

For a company that does not compute any deterministic or SR under VM-20 as a result of passing the exclusion tests as defined in VM-20 Section 6, and ~~it does not calculate any~~ all contracts subject to reserves under VM-21 are determined by application of the Alternative Methodology, VM-G Sections 2 and 3 below are generally not applicable; the requirements of Section 4 are still applicable. However, if the company calculated the SERT using the DR method outlined in VM-20 Section 6.A.2.b.i.a, or the Stochastic Exclusion Demonstration Test outlined in VM-20 Section 6.A.3, then VM-G Sections 2 and 3 are applicable.

Section 4: Responsibilities of Qualified Actuaries

- A.3 The responsibility for providing a summary report to the board and to senior management on the valuation processes used to determine and test PBR, the principle-based valuation results, the general level of conservatism incorporated into the company's PBR, the materiality of PBR in relationship to the overall liabilities of the company, and significant and unusual issues and/or findings.

If Sections 2 and 3 are not applicable because the company met the requirements to be exempt from Section 2 and Section 3 as outlined in Section 1.A, this particular reporting to board and senior management is limited to:

- a. For VM-20, notifying senior management if the company is at risk of failing either exclusion test, and if so, reporting on the company's readiness to calculate deterministic and SR; and
- b. For VM-21, notifying senior management if the company may not be able to use the Alternative Methodology for all business subject to VM-21, and if so, reporting on the company's readiness to calculate a SR.

APF 2022-09

**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.

Identification:

PBR Staff of Texas Department of Insurance

Title of the Issue:

VM-31 Reporting Issues:

1. Senior Management and Qualified Actuary are distinct, layered reporting roles in VM-G.
 2. Life and VA Reports do not discuss the aggregate impact of approximations and simplifications.
 3. There are three issues in VM-31's scenario generation documentation for VM-21 in 3.F.9:
 - a) In addition to supporting that the number of scenarios is appropriate for the CTE 70 calculation, the company should also support that the number of scenarios is appropriate for the CTE 98 calculation.
 - b) The version of the ESG should be included and the parameters of the scenario generation should be available upon request.
 - c) A section reference needs to be corrected: VM-21 Section 8.G.1 does not exist.
 4. VM-21 is missing consideration of use of a date prior to the valuation date for the SR and the additional standard projection amount, which is inconsistent with the reporting in VM-31 Section 3.F.12.e.
 5. VM-31 should specifically address actual to expected analyses for certain liability assumptions such as expenses, partial withdrawals, annuitizations as well as GMIB/ GMWB utilization.
 6. Refine VM-31 documentation to address mortality improvement requirements in VM-21 Section 11.C and Section 11.D.
 7. The requirement for the projection period in VM-20 Section 7.A.1.d is not correctly reflected in VM-31 Section 3.D.2.f.
2. Identify the document, including the date if the document is "released for comment," and the location in the document where the amendment is proposed:

VM-21 Section 3.I (new), VM-31 Section 3.D.2.f, VM-31 Section 3.D.5.f (new), VM-31 Section 3.D.11.k (new – renumber current 3.D.11.k and 3.D.11.l), VM-31 Section 3.D.14.c, VM-31 Section 3.F.2.f (new – renumber current 3.F.2.f and 3.F.2.g), VM-31 Section 3.F.3.k (new), VM-31 Section 3.F.3.i.vii, VM-31 Section 3.F.9, VM-31 Section 3.F.12.e (remove – renumber current Sections from 3.F.12.f to 3.F.12.m), VM-31 Section 3.F.13.e (New), VM-31 Section 3.F.16.c

January 1, 2023 NAIC *Valuation Manual*

3. 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.

4. State the reason for the proposed amendment? (You may do this through an attachment.)
 1. An internal control certification from Senior Management is required by VM-31. It is not appropriate for the qualified actuary to complete the certification for senior management since these two roles have different responsibilities under VM-G, representing distinct layers of reporting and oversight. Senior

management receives reporting from the qualified actuary for principle-based valuation under VM-20 and VM-21.

2. In order to better understand the aggregate impact of approximations and simplifications used by the company, VM-31 Life Report and VA Report should add a new section to discuss it. If regulators were to gain comfortable with documentation of the aggregate impact, then the requirement that each individual approximation or simplification not bias the reserves downward could be revisited. For context, here are the current sections on approximations, simplifications, and modeling efficiency techniques, which only address the individual impacts.

VM-31 Section 3.D.11.j

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.

VM-31 Section 3.F.2.e

e. Approximations, Simplifications, and Modeling Efficiency Techniques – A description of each approximation, simplification or modeling efficiency technique used in reserve or TAR calculations, and a statement that the required VM-21 Section 3.H demonstration is available upon request and shows that: 1) the use of each approximation, simplification, or modeling efficiency technique does not understate TAR by a material amount; and 2) the expected value of TAR is not less than the expected value of TAR calculated without using the approximation, simplification, or modeling efficiency technique.

If discussions of the aggregate impact of approximations, simplifications, and modeling efficiency techniques were included, then there could be a future consideration of the removal of the requirement in VM-20 Section 2.G and VM-21 Section 3.H that approximations, simplifications, and modeling efficiency techniques not bias the reserve downward.

3. For VA, support should also be provided for the number of scenarios used for the C-3 RBC calculation based on CTE 98. For VA, the version of ESG should be included. Correct section reference.
4. VM-21 is missing consideration of use of a date prior to the valuation date for the additional standard projection amount, whereas VM-31 Section 3.F.12.e implies that the intent was for VM-21 to have such a consideration or allowance. VM-20 explicitly addresses such a consideration in VM-20 Section 2.E, and we use that language as a starting point for VM-21.

VM-20 Section 2.E

The company may calculate the DR and the SR as of a date no earlier than three months before the valuation date, using relevant company data, provided an appropriate method is used to adjust those reserves to the valuation date. Company data used for experience studies to determine prudent estimate assumptions are not subject to this three-month limitation.

5. In order for regulator reviewers to be able to better understand and evaluate a company's liability assumptions for expenses, partial withdrawals, annuitizations, as well as GMIB and GMWB utilization, a comparison of actual to expected should specifically be referenced in VM-31. We have used the

language for actual to expected policyholder behavior analysis in VM-31 Section 3.D.4.c (Life Report) as a format for a general A/E request.

VM-31 Section 3.D.4.c

Actual to Expected Policyholder Behavior Analysis – The results of the most recently available actual to expected (without margins) analysis, including:

- i. Definitions of the expected basis used in all actual-to-expected ratios shown.*
- ii. Comments addressing the conclusions drawn from the analysis.*

- 6. Adding documentation to confirm that the company has applied historical and future mortality improvement when it would result in an increase in the stochastic reserve as required by VM-21 Section 11.C and Section 11.D.
- 7. The language in VM-31 should be modified to correctly require reporting on VM-20’s requirement for the projection period. For reference, here is the relative passage of VM-20:

VM-20 Section 7.A.1.d:

Projects cash flows for a period that extends far enough into the future so that no obligations remain.

* This form is not intended for minor corrections, such as formatting, grammar, cross–references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
<u>11/15/2022, revised 1/30/23</u>	<u>SO</u>		
Notes: <u>APF 2022-09</u>			

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VM-31 Section 3.D.14.c:

c. Senior Management on Internal Controls – A certification from senior management, other than the qualified actuary, regarding the effectiveness of internal controls with respect to the principle-based valuation under VM-20, as provided in Section 12B(2) of Model #820.

VM-31 Section 3.F.16.c:

c. Senior Management on Internal Controls – A certification from senior management, other than the qualified actuary, regarding the effectiveness of internal controls with respect to the principle-based valuation under VM-21, as provided in Section 12B(2) of Model #820.

VM-31 Section 3.D.11.k (new – renumber current 3.D.11.k and 3.D.11.l):

k. Aggregate Impact of Approximations, Simplifications and Modeling Efficiency Techniques – Support that the aggregate impact of approximations and simplifications does not result in a material understatement of the reserve. This should include consideration of not just the magnitude of the sum of the individual impacts when considered in isolation, but also consideration of any potential interaction of approximations, simplifications, and modeling efficiency techniques.

VM-31 Section 3.F.2.f (new– renumber current 3.F.2.f and 3.F.2.g):

f. Aggregate Impact of Approximations, Simplifications and Modeling Efficiency Techniques – Support that the aggregate impact of approximations and simplifications does not result in a material understatement of TAR. This should include consideration of not just the magnitude of the sum of the individual impacts when considered in isolation, but also consideration of any potential interaction of approximations, simplifications, and modeling efficiency techniques.

VM-31 Section 3.F.9:

9. Scenario Generation – The following information regarding the scenario generation for interest rates and equity returns used by the company in performing a principle-based valuation under VM-21 and in determining the C-3 RBC amount under LR027, as it applies to the calculation of the SR, TAR and CTEPA (if used):

- a. Sources – Identification of the sources or generators used to produce the scenarios.
Versions should be identified and parameters to the scenario generation shall be available upon request.
- b. Number of Scenarios – Number of scenarios used, rationale for that number, methods used to determine the sampling error of the CTE 70 and CTE 98 statistic when using the selected number of scenarios, and documentation that any resulting understatement in reserve or TAR, as compared with that resulting from running additional scenarios, is not material, as discussed in VM-21 Section 8.F.
- c. Scenario Reduction Techniques – If a scenario reduction technique is used, a description of the technique and documentation of how the company determined that the technique does not lead to a material understatement of results.
- d. Time-Step – Identification of the time-step of the model (e.g., monthly, quarterly, annual), and results of testing performed to determine that use of a more frequent time-step does not materially increase reserves, as discussed in VM-21 Section 8-G-14.F.1.

VM-21 Section 3.I (New):

The company may calculate the SR and the additional standard projection amount as of a date no earlier than three months before the valuation date, using relevant company data, provided an appropriate method is used to adjust

those amounts to the valuation date. Company data used for experience studies to determine prudent estimate assumptions are not subject to this three-month limitation.

VM-31 Section 3.F.12.e (remove – renumber current Sections from 3.F.12.f to 3.F.12.m):

~~Prior Date – If the additional standard projection amount was developed as of a date prior to the valuation date, disclosure of the prior date, the additional standard projection amount of the in force on the prior date, and an explanation of why the use of such a date will not produce a material change in the results compared to if the results were based on the valuation date. Such an explanation shall describe the process that the qualified actuary used to determine the adjustment, the amount of the adjustment, and the rationale for why the adjustment is appropriate.~~

VM-31 Section 3.F.13.e (New):

Calculations as of a Date Preceding the Valuation Date – If the SR and/or the additional standard projection amount were developed as of a date prior to the valuation date, disclosure of the prior date, the SR and the additional standard projection amount of the in force on the prior date, and an explanation of why the use of such a date will not produce a material change in the results compared to if the results were based on the valuation date. Such an explanation shall describe the process that the qualified actuary used to determine the adjustment required by VM-21 Section 3.I, the amount of the adjustment, and the rationale for why the adjustment is appropriate.

VM-31 Section 3.D.5.f (New):

5. Expenses – The following information regarding the expense assumptions used by the company in performing a principle-based valuation under VM-20:

f. Actual to Expected Analysis – The results of the most recently available actual to expected (without margins) analysis, including:

- i. Definitions of the expected basis used in all actual-to-expected ratios shown.
- ii. Comments addressing the conclusions drawn from the analysis.

VM-31 Section 3.F.3.k (New – renumber current section 3.F.3.k):

k. Actual to Expected Analysis – Disclosure of the results of the most recently available actual to expected (without margins) analysis for the assumptions including 3.F.3.d Expenses Other than Commissions, 3.F.3.e Partial Withdrawals, 3.F.3.g Annuitization Benefits and 3.F.3.h GMIB and GMWB Utilizations, including:

- i. Definitions of the expected basis used in all actual-to-expected ratios shown.
- ii. Comments addressing the conclusions drawn from the analysis.

VM-31 Section 3.F.3.i.vii:

Discussion of any assumptions made on mortality improvements both for applying up to and beyond the valuation date (if applicable), the support for such assumptions, and how such assumptions adjusted the modeled mortality. In a case where mortality improvement as discussed in VM-21 Section 11.C and Section 11.D has not been applied, confirmation that applying such improvement would not result in an increase in the SR.

VM-31 Section 3.D.2.f:

Projection Period – Disclosure of the length of projection period and comments addressing the conclusion that ~~no material amount of business remains at the end of the projection period~~ the projection of cash flows extends far enough into the future that no obligations remain for both the deterministic and stochastic models.

APF 2022-10

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.

Ben Slutsker, Minnesota Department of Commerce
Elaine Lam and Thomas Reedy, California Department of Insurance

Some policies in the ULSG Reserving Category may have a non-material secondary guarantee. This makes them eligible to be excluded from both DR and SR calculations if they pass both the DET and the SET. Currently, the language in VM-20 Section 2.A.2 does not address this possibility, and thus does not clearly state the requirement for those policies. Furthermore, aspects of the NPR calculation may have been unclear for certain indexed universal life policies that pass exclusion tests.

2. 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, 2023 edition), VM-20 Section 2.A.2, Section 3.B.5, and Section 3.B.6

3. 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.

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

The purpose of this APF is to add language to address the possibility of policies in the ULSG Reserving Category having a non-material secondary guarantee, and thus becoming excluded from both DR and SR calculations if they pass both the DET and the SET. The new proposed subsection within VM-20 Section 2.A.2 clarifies the total minimum reserve calculation for these policies. The new proposed Guidance Note immediately following the new proposed subsection clarifies when the subsection applies, which is only in cases of UL policies with non-material SGs. In addition, edits are proposed to Section 3.B.5 and 3.B.6 of VM-20 to have the NPR on indexed universal life policies that pass both exclusion tests follow VM-A and VM-C calculations.

* This form is not intended for minor corrections, such as formatting, grammar, cross-references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
<u>12/1/2022</u>	<u>SO</u>		
Notes: <u>APF 2022-10</u>			

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New proposed language is in redline below:

VM-20 Section 2.A.2

2. ULSG Reserving Category — All policies and riders belonging to the ULSG Reserving Category are to be included in Section 2.A.2.~~c.b~~ unless the company has elected to exclude a group of them from the SR calculation or both the DR and SR calculations and has applied the SET-applicable exclusion test(s) defined in Section 6, passed the test(s) and documented the results.

a. For the group of policies and riders for which the company did not compute the DR nor the SR: the sum of the policy minimum NPRs for those policies.

Guidance Note: This may be applicable for a group of ULSG policies that meet the definition of a “non-material secondary guarantee” and passes both the DET and the SET.

~~a.b.~~ For the group of policies and riders for which the company did not compute the SR: the sum of the policy minimum NPRs for those policies plus the excess, if any, of the DR for those policies determined pursuant to Section 4 over the quantity (A–B), where A = the sum of the policy minimum NPRs for those policies, and B = any due and deferred premium asset held on account of those policies.

~~b.c.~~ For the group of policies and riders for which the company computes all three reserve calculations: the sum of the policy minimum NPRs for those policies plus the excess, if any, of the greater of the DR for those policies determined pursuant to Section 4 and the SR for those policies determined pursuant to Section 5 over the quantity (A–B), where A = the sum of the policy minimum NPRs for those policies, and B = any due and deferred premium asset held on account of those policies.

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

VM-20 Section 3.B.5

5. For all policies and riders within the ULSG Reserving Category, other than indexed universal life policies for which the company did not compute the DR nor the SR, the NPR shall be determined as follows:

a. If the policy duration on the valuation date is prior to the point when all secondary guarantee periods have expired, the NPR shall be the greater of the reserve amount determined in Section 3.B.5.c and the reserve amount determined in Section 3.B.5.d, subject to the floors specified in Section 3.D.2.

...

VM-20 Section 3.B.6

6. For all policies and riders within the All Other VM-20 Reserving Category, as well as indexed universal life policies for which the company did not compute the DR nor the SR, the NPR shall be determined pursuant to applicable methods in VM-A and VM-C for the basic reserve. The mortality tables to be used are those defined in Section 3.C.1 and in VM-M Section 1.H.

APF 2023-02

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.

Identification:

Elaine Lam, Office of PBR, California Department of Insurance (CDI)

Title of Issue:

Proposal to add disclosure requirements in VM-31, and clarify language in the Annual Statement Instructions related to reporting in the VM-20 Reserves Supplement.

2. 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, 2023 edition) – Proposal to add new section as VM-31 Section 3.C.11

2022 Annual Statement Instructions – Proposal to add a sentence to the instructions for “VM-20 Reserves Supplement”, starting on page 807

3. 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.

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

1. Add disclosure requirements in VM-31 for the Company to reconcile reported values and explain differences (if any) between reported values in the VM-31 Report (High-Level Results section), in the VM-20 Reserves Supplement (Parts 1A and 1B), and in the Annual Statement (Exhibit 3 for Separate Account values, Exhibit 5 for General Account values, and any other). Regulators have found inconsistencies in the values reported in the different locations. Moreover, without these disclosures, regulators have had a difficult time reconciling values and checking for misreported values.

2. Make a referral to the Blanks (E) Working Group to update the Annual Statement Instructions for the VM-20 Reserves Supplement to clarify that separate account amounts should be included in the Supplement. There has been inconsistent reporting by companies because the current instructions do not specifically address the treatment of separate account amounts.

* This form is not intended for minor corrections, such as formatting, grammar, cross-references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
1/29/23	SO		
Notes: APF 2023-02			

New proposed language in the *Valuation Manual* is in redline below:

(new section)

VM-31 Section 3.C.11

11. Reconciliation of Reported Values – A reconciliation of reported values and an explanation of differences, if any, between reported values in Section 3.B.5 (High-Level Results), in the VM-20 Reserves Supplement – Part 1A and Part 1B, and in the Annual Statement (Exhibit 3 for Separate Account values, Exhibit 5 for General Account values, and any other).

For referral to the Blanks (E) Working Group, new proposed language in the Annual Statement Instructions is in redline below:

VM-20 RESERVES SUPPLEMENT

Life Insurance Reserves Valued According to VM-20 by Product Type

This Supplement provides information on the reserves required to be calculated by Section VM-20 of the *Valuation Manual*.

This includes the Net Premium Reserve and, as applicable, the Deterministic Reserve and the Stochastic Reserve. Only

business issued on or after Jan. 1, 2017, valued by the requirements of VM-20 should be reported in Part 1A and Part 1B.

Part 1A and Part 1B are intended to aid regulators in the analysis of reserves as determined under Section VM-20 of the *Valuation Manual* for both the prior and current year.

This Supplement also provides information regarding business where VM-20 of the *Valuation Manual* is not required to be applied. Companies exempted from the requirements of Section VM-20 are not required to complete Part 1A or Part 1B of this Supplement but must complete Part 2 or Part 3 as applicable.

VM-20 RESERVES SUPPLEMENT – PART 1A

Life Insurance Reserves Valued According to VM-20 by Product Type

Part 1A of this Supplement breaks out, by product type, the prior year and current year reported reserves on a Post-Reinsurance-Ceded and Pre-Reinsurance-Ceded basis as defined in Section 8.D of Section VM-20 of the *Valuation Manual*.

The Due and Deferred Premium Asset for the current year is also shown.

Section VM-20 of the *Valuation Manual* requires that the Post-Reinsurance-Ceded Reserve be determined by three VM-20

Reserving Categories: Term Insurance, Universal Life with Secondary Guarantees (ULSG) and all other. Term Insurance should be reported on line 1.1. ULSG, including Variable Universal Life with a secondary guarantee, Indexed life insurance with a secondary guarantee, regular Universal Life with a secondary guarantee, and ULSG policies with a non-material secondary guarantee as defined in Section VM-01 of the *Valuation Manual*, should be reported on line 1.2. Each of the other products reported in lines 1.3 – 1.8 should be determined as the sum of the policy reserves using the policy reserves determined following the allocation process of VM-20 Section 2. A similar process should be used for each of the pre-reinsurance-ceded reserves. **Both Post-Reinsurance-Ceded Reserves and Pre-Reinsurance-Ceded Reserves, as defined in VM-20, include separate account amounts where applicable to the policies in scope.**

Columns 1 & 2 – Reported Reserve

Provide the reported reserve, in whole dollars, for the prior year and current year for each line item.

Post-Reinsurance-Ceded is net of reinsurance ceded. Pre-Reinsurance-Ceded should be prior to any reinsurance ceded and include reinsurance assumed. Sections 2 and 8 in the *Valuation Manual* further describe the required reserve and treatment of reinsurance. The reported reserve for the current year should reflect all policies in force as of the end of the current year. The reported reserve for the prior year should reflect all policies in force as of the end of the prior year.

Etc...

APF 2023-03

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.

Identification:

PBR Staff of Texas Department of Insurance

Title of the Issue:

Address several clean-up items for VM-20, as well as related VM-21 and VM-31 Sections.

2. Identify the document, including the date if the document is “released for comment,” and the location in the document where the amendment is proposed:

VM-20 Section 7.E.2 and Guidance Note below, VM-21 Section 4.D.4.c, VM-20 Section 7.K.3, VM-31 Section 3.D.6.f, VM-20 Section 9.A.4

January 1, 2023 NAIC Valuation Manual

3. 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.

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

Note: Items 1 and 2 from the original exposed version of APF 2023-03 were removed for separate consideration. Comments for items 1 and 2 from the original exposed version of APF 2023-03 are being accepted until April 14, 2023.

3. Add consideration to VM-20 Section 7.E.2 consistent with VM-21 Section 4.D.4.c’s requirement on the company’s assumed cost of borrowing along with the associated Guidance Note. Editorial clarifications to the existing Guidance Note in VM-21.
4. VM-20 Section 7.K.3 should clarify the requirement to reflect the hedge modeling error or insufficiency. Related to this change, more discussion about the hedging strategy and hedge modeling should be added to the Life Report section of the VM-31 Section 3.D.6.f report.
5. VM-20 Section 9.A.4 implies companies can elect to stochastically model risk factors other than interest rates & equities. Stochastic assumptions are not subject to the requirements of Section 9 relating to prudent estimate assumptions. Nor are any guidance/specific requirements provided if companies elect to stochastically model other risk factors. Add consideration to VM-20 consistent with VM-21 Section 12.B.4’s requirement about the risk factors other than interest rates & equities that are stochastically modelled, which was added to VM-21 for this same reasoning.

* This form is not intended for minor corrections, such as formatting, grammar, cross-references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
<u>1/30/23</u>	<u>SO</u>		
Notes: <u>APF 2023-03</u>			

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VM-20 Section 7.E.2

2. Model at each projection interval any disinvestment in a manner that is consistent with the company's investment policy and that reflects the company's cost of borrowing where applicable, provided that the assumed cost of borrowing is not lower than the rate at which positive cash flows are reinvested in the same time period, taking into account duration, ratings, and other attributes of the borrowing mechanism. Gross asset spreads used in computing market values of assets sold in the model shall be consistent with, but not necessarily the same as, the gross asset spreads in Section 7.E.1.d and Section 7.E.1.f above, recognizing that starting assets may have different characteristics than modeled reinvestment assets.

Guidance Note: The simple language above "provided that the assumed cost of borrowing is not lower than the rate at which positive cash flows are reinvested in the same time period" is intended to prevent excessively optimistic borrowing assumptions. If in any case, the assumed cost of borrowing restriction cannot be fully applied or followed precisely, then as with all other simplifications/approximations, the company shall not allow borrowing assumptions to materially reduce the reserve.

VM-21 Section 4.D.4.c

Guidance Note: ~~This limitation is being referred to Life Actuarial (A) Task Force for review.~~ The simple language above "provided that the assumed cost of borrowing is not lower than the rate at which positive cash flows are reinvested in the same time period" is ~~not intended to impose a literal requirement. It is intended to reflect a general concept~~ to prevent excessively optimistic borrowing assumptions. ~~It is recognized that borrowing parameters and rules can be complicated, such that modeling limitations may not allow for literal compliance, in every time step, as long as the reserve is not materially affected. However, if in any case, the company is unable to fully apply this~~ the assumed cost of borrowing restriction cannot be fully applied or followed precisely, then as with all other simplifications/approximations, prudence dictates that the company shall not allow borrowing assumptions to materially reduce the reserve.

VM-20 Section 7.K.3

3. In circumstances where one or more material risk factors related to a derivative program are not fully captured within the cash-flow model used to calculate CTE 70, the company shall reflect the approximation, simplification or model limitations in the modeling of such risk factors by increasing the SR as described in Section 5.E. The company shall also be able to justify that the method appropriately reflects the potential error using historical experience, e.g., analysis of historical performance or backtesting.



VM-31 Section 3.D.6.f

- f. Risk Management – Detailed description of model risk management strategies, such as hedging and other derivative programs, including any future hedging strategies supporting the policies and any adjustments to the SR pursuant to VM-20, Section 7.K.3 and VM-20, Section 7.K.4, specific to the groups of policies covered in this sub-report and not discussed in the Life Summary Section 3.C.5. Documentation of any future hedging strategies should include documentation addressing each of the CDHS documentation attributes. The following should be included in the documentation:
- i. Descriptions of basis risk, gap risk, price risk and assumption risk.
 - ii. Methods and criteria for estimating the a priori effectiveness of the strategy.
 - iii. Results of any reviews of actual historical hedging effectiveness.
 - iv. Strategy Changes – Discussion of any changes to the hedging strategy during the past 12 months, including identification of the change, reasons for the change, and the implementation date of the change.
 - v. Hedge Modeling – Description of how the hedge strategy was incorporated into modeling, including:
 - Differences in timing between model and actual strategy implementation.
 - For a company that does not have a future hedging strategy supporting the contracts, confirmation that currently held hedge assets were included in the starting assets.
 - Evaluations of the appropriateness of the assumptions on future trading, transaction costs, other elements of the model, the strategy, and other items that are likely to result in materially adverse results.
 - Discussion of the projection horizon for the future hedging strategy as modeled and a comparison to the timeline for any anticipated future changes in the company’s hedging strategy.
 - If residual risks and frictional costs are assumed to have a value of zero, a demonstration that a value of zero is an appropriate expectation.
 - Any discontinuous hedging strategies modeled, and where such discontinuous hedging strategies contribute materially to a reduction in the SR, any evaluations of the interaction of future trigger definitions and the discontinuous hedging strategy, including any analyses of model assumptions that, when combined with the reliance on the discontinuous hedging strategy, may result in adverse results relative to those modeled.
 - The approach and rationale used to reflect the hedge modeling error(s).

VM-20 Section 9.A.4

4. If the company elects to stochastically model risk factors in addition to those listed in Section 9.A.3 above, the requirements in this section for determining prudent estimate assumptions for these risk factors do not apply.

It is expected that companies will not stochastically model risk factors other than the economic scenarios, such as policyholder behavior or mortality, until VM-20 has more specific guidance and requirements available. Companies shall discuss with domiciliary regulators if they wish to stochastically model other risk factors.

APF 2023-01

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.

Identification:

PBR Staff of Texas Department of Insurance

Title of the Issue:

The values of the starting assets defined in the two sentences in VM-21 Section 4.D.1.a are not identical.

2. Identify the document, including the date if the document is “released for comment,” and the location in the document where the amendment is proposed:

VM-21 Section 4.D.1.a.iii in January 1, 2023 NAIC Valuation Manual

3. 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.)

1. Starting Asset Amount

a. For the projections of accumulated deficiencies, the value of assets at the start of the projection shall be set equal to the approximate value of statutory reserves at the start of the projection plus the allocated amount of PIMR attributable to the assets selected. Assets shall be valued consistently with their annual statement values. The amount of such asset values shall equal the sum of the following items, all as of the start of the projection:

i. All of the separate account assets supporting the contracts;

ii. Any hedge instruments held in support of the contracts being valued; and

iii. An amount of assets held in the general account equal to the approximate value of statutory reserves as of the start of the projections plus the allocated amount of PIMR attributable to the assets selected less the amount in (i) and (ii).

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

The edit is necessary to have the identical value of the assets at the start of the projection as in the first sentence (i.e., For the projections of accumulated deficiencies, the value of assets at the start of the projection shall be set equal to the approximate value of statutory reserves at the start of the projection **plus the allocated amount of PIMR attributable to the assets selected**).

* This form is not intended for minor corrections, such as formatting, grammar, cross-references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
<u>1/9/23, 2/7/23, 3/2/23</u>	<u>SO</u>		
Notes: <u>APF 2023-01</u> <u>2/23/23 edit was to move the “plus the allocated amount of PIMR attributable to the assets selected” down to 4.D.1.a.iii from 4.D.1.a.</u>			

APF 2023-04

**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.

Identification:

PBR Staff of Texas Department of Insurance

Title of the Issue:

Companies appear unclear how to support the requirement that “company experience mortality rates shall not be lower than the mortality rates the company expects to emerge” in PBR Actuarial Report under VM-31 Section 3.D.3.1.iv.

2. Identify the document, including the date if the document is “released for comment,” and the location in the document where the amendment is proposed:

VM-31 Section 3.D.3.1.iv

January 1, 2023 NAIC *Valuation Manual*

3. 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.

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

We have observed a consistent issue, where there is not adequate support showing compliance with the requirement that “the company experience mortality rates shall not be lower than the mortality rates the company expects to emerge”. The most commonly provided support is a retrospective quantitative analysis (e.g., the actual to expected analysis), without any further discussion of the mortality rates that the company expects to emerge. The intention of this requirement is to discuss any forward-looking qualitative analysis, rather than just a historical quantitative analysis. The disclosure shall include, but is not limited to, the discussion of underwriting standard changes (or the lack thereof), distribution channel changes (or the lack thereof), any pandemic adjustments (or the lack thereof), and the results of ongoing experience monitoring.

* This form is not intended for minor corrections, such as formatting, grammar, cross-references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
<u>2/24/23</u>	<u>SO</u>		
Notes: <u>APF 2023-04</u>			

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VM-31 Section 3.D.3.IV

Description and justification of the mortality rates the company actually expects to emerge, and a demonstration that the anticipated experience assumptions are no lower than the mortality rates that are actually expected to emerge. The description and demonstration should include the level of granularity at which the comparison is made (e.g., ordinary life, term only, preferred term, etc.). For the mortality rates that are actually expected to emerge, the description should include a forward-looking qualitative analysis which includes, but is not limited to, the discussion of any underwriting standard changes (or lack thereof), distribution channel changes (or lack thereof), any pandemic adjustments (or lack thereof), and the results of ongoing experience monitoring.

APF 2021-08

Dates: Received	Reviewed by Staff	Distributed	Considered
4/21/23	SO		
Notes: APF 2021-08			

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.

Society of Actuaries Valuation Basic Table Team – Chair Larry Bruning

Revisions to VM-51 to allow for the data experience reporting observation calendar year to be one year prior to the reporting calendar year.
2. Identify the document, including the date if the document is “released for comment,” and the location in the document where the amendment is proposed:

January 1, ~~2021~~ 2023, version of the Valuation Manual – VM-51 Section 2.D.
3. 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.)

Section 2: Statistical Plan for Mortality

D. Process for Submitting Experience Data Under This Statistical Plan

Data for this statistical plan for mortality shall be submitted on an annual basis. Each company required to submit this data shall submit the data using the Regulatory Data Collection (RDC) online software submission application developed by the Experience Reporting Agent. For each data file submitted by a company, the Experience Reporting Agent will perform reasonability and completeness checks, as defined in Section 4 of VM-50, on the data. The Experience Reporting Agent will notify the company within 30 days following the data submission of any possible errors that need to be corrected. The Experience Reporting Agent will compile and send a report listing potential errors that need correction to the company.

Data for this statistical plan for mortality will be compiled using a calendar year method. The reporting calendar year is the calendar year that the company submits the experience data. The observation calendar year is the calendar year of the experience data that is reported. The observation calendar year will be ~~two~~ one years prior to the reporting calendar year. For example, if the current calendar year is ~~2018~~ 2024 and that is the reporting calendar year, the company is to report the experience data that was in-force or issued in calendar year ~~2016~~ 2023, which is the observation calendar year. **For the 2024 reporting calendar year, companies who are required to submit data for this statistical plan for mortality will be required to submit two observation calendar years of data, namely observation calendar year 2022 and observation calendar year 2023. For reporting calendar years after 2024, companies who are required to submit data for this statistical plan for mortality will be required to submit one observation calendar year of data.**

Given an observation calendar year of 20XX, the calendar year method requires reporting of experience data as follows:

- i. Report policies in force during or issued during calendar year 20XX.
- ii. Report terminations that were incurred in calendar year 20XX and reported before ~~July~~ April 1, 20XX+1. Companies may report terminations reported after April 1, 20XX+1 if they choose to do so. However, exclude rescinded policies (e.g., 10-day free look exercises) from the data submission.

For any reporting calendar year, the data call will occur during the second quarter, and the data is to be submitted according to the requirements of the *Valuation Manual* in effect during that calendar year. Data submissions must be made by Sept. 30 of the reporting calendar year. Corrections of data submissions must be completed by ~~Dec. 31~~ Feb. 28 of the year following the reporting calendar year. The NAIC may extend either of these deadlines if it is deemed necessary.

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

This APF is needed for the following reasons:

1. There is a need to shorten the time period between data observation and data collection to facilitate more timely analysis and reporting of mortality experience.
2. Under a Principle Based Reserving methodology, valuation basic tables should reflect recent and current mortality experience.

APF 2023-05

Dates: Received	Reviewed by Staff	Distributed	Considered
3/7/23, 5/5/23, 5/10/23, 5/15/23, 6/1/23	SO		
Notes: APF 2023-05			

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.

Identification:

Brian Bayerle, ACLI

Title of the Issue:

Revise hedge modeling language to address index credit hedging.

2. Identify the document, including the date if the document is “released for comment,” and the location in the document where the amendment is proposed:

VM-01, VM-21 Section 4.A.4, VM-21 Section 6.B.3, VM-21 Section 9, VM-21 Section 9.C.2, VM-21 Section 9.E.7, VM-31 Section 3.F.8.d

January 1, 2023 NAIC Valuation Manual, APF 2020-12

3. 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.

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

Index credit hedging is fundamentally different than the dynamic GMxB hedging which formed the conceptual underpinnings for VM-21. For example, the relatively fixed parameters of traditional GMxBs drive the hedging approach. In contrast, indexed products (including RILAs) have flexible crediting parameters which are continually reset based on hedge availability and costs, as well as current market conditions. In short, GMxB contract features drive hedging, while index product hedging drives contract features.

Since the reforms of VM-21 and C3P2, ILVA products have experienced major market growth. Several carriers, with the agreement of regulators and auditors, have interpreted the current VM-21 guidance as permitting the effects of index credit hedging to be reflected in product cash flows instead of within the “best efforts” and “adjusted” scenarios. Both regulators and industry would benefit from the codification of this approach within VM-21.

ACLI’s proposal borrows heavily from the Academy’s draft VM-22. The “error” for index credit hedging is describes as a percentage reduction to hedge payoffs. The percentage reduction must be supported by relevant, credible, and documented experience. A minimum of [1%/2%] is proposed as a regulatory guardrail.

The ACLI proposal would subject index credit hedging to the “clearly defined” documentation requirements of VM-21. Substantively, the change would (a) include index credit hedge purchases with the VM-21 “adjusted” run, and (b) permit index credit hedging to reflect a different, and potentially lower, level of ineffectiveness.

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ACLI supports aligning the index credit hedging guidance between VM-21 and VM-22. We started with draft VM-22 verbiage in creating this APF. In a few areas, our members have suggested technical improvements to the draft VM-22 definitions. It may be appropriate to carry these over to VM-22.

* This form is not intended for minor corrections, such as formatting, grammar, cross-references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

NAIC Staff Comments:

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VM-01

The term “index credit hedge margin” means a margin capturing the risk of inefficiencies in the company’s hedging program supporting index credits. This includes basis risk, persistency risk, and the risk associated with modeling decisions and simplifications. It also includes any uncertainty of costs associated with managing the hedging program and changes due to investment and management decisions.

The term “index credit” means any interest credit, multiplier, factor, bonus, charge reduction, or other enhancement to policy or contract values that is directly linked to one or more indices. Amounts credited to the policy or contract resulting from a floor on an index account are included. An index credit may be positive or negative.

The term “index crediting strategies” means the strategies defined in a contract to determine index credits for a contract. For example, this may refer to underlying index, index parameters, date, timing, performance triggers, and other elements of the crediting method.

VM-21 Section 4.A.4

4. Modeling of Hedges

- a. For a company that does not have a future hedging strategy supporting the contracts:
 - i. The company shall not consider the cash flows from any future hedge purchases or any rebalancing of existing hedge assets in its modeling, since they are not included in the company’s investment strategy supporting the contracts.
 - ii. Existing hedging instruments that are currently held by the company in support of the contracts falling under the scope of these requirements shall be included in the starting assets.
- b. For a company with one or more future hedging strategies supporting the contracts:
 - i. For a future hedging strategy with hedge payoffs that solely offset index credits associated with index crediting strategies (index credits):
 - a) In modeling cash flows, the company shall include the cash flows from future hedge purchases or any rebalancing of existing hedge assets that are intended solely to offset index credits to contract holders.
 - b) Existing hedging instruments that are currently held by the company for offsetting the index credits in support of the contracts falling under the scope of these requirements shall be included in the starting assets.
 - c) An index credit hedge margin for these hedge instruments shall be reflected in both the “best efforts” and the “adjusted” runs, as applicable, by reducing index credit hedge payoffs by a margin multiple that shall be justified by sufficient and credible company experience and account for model error. It shall be no less than 1.5% multiplicatively of the portion of the index credit that is hedged. In the absence of sufficient and credible company experience, a margin of at least 20% shall be assumed. There is no cap on the index credit hedge margin if company experience indicates actual error is greater than these minimums.

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- ii. For a company with one or more future hedging strategies supporting the contracts that do not solely offset index credits, the detailed requirements for the modeling of the hedges are defined in Section 9. The following requirements do not supersede the detailed requirements.
- a) The appropriate costs and benefits of hedging instruments that are currently held by the company in support of the contracts falling under the scope of these requirements shall be included in the projections used in the determination of the SR.
 - b) The projections shall take into account the appropriate costs and benefits of hedge positions expected to be held in the future through the execution of the future hedging strategies supporting the contracts. Because models do not always accurately portray the results of hedge programs, the company shall, through back-testing and other means, assess the accuracy of the hedge modeling. The company shall determine a SR as the weighted average of two CTE70 values; first, a CTE70 (“best efforts”) representing the company’s projection of all of the hedge cash flows, including future hedge purchases, and a second CTE70 (“adjusted”) which shall use only hedge assets held by the company on the valuation date and only future hedge purchases associated solely with index credits. These are discussed in greater detail in Section 9. The SR shall be the weighted average of the two CTE70 values, where the weights reflect the error factor determined following the guidance of Section 9.C.4.
 - c) The company is responsible for verifying compliance with all requirements in Section 9 for all hedging instruments included in the projections.
 - d) The use of products not falling under the scope of these requirements (e.g., equity-indexed annuities) as a hedge shall not be recognized in the determination of accumulated deficiencies.
- iii. If a company has a more comprehensive hedge strategy combining index credits with guaranteed benefit and/or other risks (e.g., full fair value or economic hedging), no portion of this hedge strategy is eligible for the treatment described in section 4.A.4.b.i.

VM-21 Section 6.B.3 Footnote

¹ Throughout this Section 6, references to CTE70 (adjusted) shall also mean the SR for a company that does not have a future hedging strategy supporting the contracts **that does not solely offset index credits** as discussed in Section 4.A.4.

VM-21 Section 9

Section 9: Modeling Hedges under a Future Non-Index Credit Hedging Strategy

A. Initial Considerations

1. This section applies to modeling of hedges other than situations where the company only hedges index credits.

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2. Subject to Section 9.C.2, the appropriate costs and benefits of hedging instruments that are currently held by the company in support of the contracts falling under the scope of these requirements shall be included in the calculation of the SR, determined in accordance with Section 3.D and Section 4.D.

(Subsequent sections to be renumbered)

VM-21 Section 9.C.2

2. The company shall calculate a CTE70 (adjusted) by recalculating the CTE70 assuming the company has no future hedging strategies supporting the contracts except hedge purchases solely related to strategies to hedge index credits, therefore following the requirements of Section 4.A.4.a and 4.A.4.b.i.

However, for a company with a future hedging strategy supporting the contracts, existing hedging instruments, except hedging instruments solely related to strategies to hedge index credits, that are currently held by the company in support of the contracts falling under the scope of these requirements may be considered in one of two ways for the CTE70 (adjusted):

- a) Include the asset cash flows from any contractual payments and maturity values in the projection model.
- b) No hedge positions, in which case, the hedge positions held on the valuation date are replaced with cash and/or other general account assets in an amount equal to the aggregate market value of these hedge positions.

VM-21 Section 9.E.7

7. The company may also consider historical experience for similar current or past hedging programs on similar products to support the error factor or index credit hedge margin determined for the projection.

VM-31 Section 3.F.8.d.x (new subsection)

- x. Justification for the margin for any future hedging strategy that offsets index credits associated with index crediting strategies (index credits), including relevant experience, other relevant analysis, and an assessment of potential model error
- xi. Ten years of historical experience on hedge gains/losses as a percent of index credited for hedge programs supporting index credits.

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- xii. If there is less than five years of historical experience of this hedging program or a hedging program on similar products, an explanation of how the company considered increases in the error factor to account for limited historical experience.

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APF 2023-07

**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.

Identification:

California Office of Principles-Based Reserving and Minnesota Department of Commerce

Title of the Issue:

Company-Specific Market Path (CSMP) Removal

2. Identify the document, including the date if the document is “released for comment,” and the location in the document where the amendment is proposed:

VM-21 Section 6.A.1

January 1, 2024 NAIC *Valuation Manual*

3. 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.

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

The standard projection amount drafting group found that there is very little use of the CSMP method for the VM-21 standard projection amount. Therefore, we recommend removing this method from VM-21 starting in 2025, which gives time to transition to the CTEPA method for the few companies that currently employ the CSMP method.

* This form is not intended for minor corrections, such as formatting, grammar, cross-references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

NAIC Staff Comments:

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5/1/2023, 6/1/2023	SO		
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VM-21 Section 6: Requirements for the Additional Standard Projection Amount

A. Overview

1. Determining the Additional Standard Projection Amount

- a. For valuation dates before January 1, 2025, the additional standard projection amount shall be the larger of zero and an amount determined in aggregate for all contracts falling under the scope of these requirements, excluding those contracts to which the Alternative Methodology is applied, by calculating the Prescribed Projections Amount by one of two methods, the Company-Specific Market Path (CSMP) method or the CTE with Prescribed Assumptions (CTEPA) method. The company shall assess the impact of aggregation on the additional standard projection amount.
- b. For valuation dates on or after January 1, 2025, the additional standard projection amount shall be the larger of zero and an amount determined in aggregate for all contracts falling under the scope of these requirements, excluding those contracts to which the Alternative Methodology is applied, by calculating the Prescribed Projections Amount by the CTEPA method. The company shall assess the impact of aggregation on the additional standard projection amount.
- c. The additional standard projection amount shall be calculated based on the scenario reserves, as discussed in Section 4.B, with certain prescribed assumptions replacing the company prudent estimate assumptions. As is the case in the projection of a scenario in the calculation of the SR, the scenario reserves used to calculate the additional standard projection amount are based on an analysis of asset and liability cash flows produced along certain equity and interest rate scenario paths.