March 16, 2020

Mr. Mike Boerner
Chair, NAIC Life Actuarial Task Force

Re: APF 2020-02

Dear Mr. Boerner:

The American Council of Life Insurers (ACLI)\(^1\) appreciates the opportunity to submit the following comments on APF 2020-02.

ACLI is concerned with this APF as drafted. The standard imposed by the language suggests companies perform significant work when actuarial experience or materiality would suggest it is not necessary. We note the following areas of concerns:

1. **Immateriality**: Most companies are going to have small pockets of business where the cost of doing a precise VM-20 calculation will far exceed the reserve, and possibly even the sum at risk. In such situations, the cost of needing to perform a mortality experience study (just to prove that mortality wasn’t higher than the fully loaded prescribed table), building out a full asset model, etc. would be cost and time prohibitive. ACLI believes skipping such steps is reasonable if the impact is truly immaterial, and meets both the spirit and letter of Section 2.G:

   A company may use simplifications, approximations and modeling efficiency techniques to calculate the NPR, the deterministic reserve and/or the stochastic reserve required by this section if the company can demonstrate that the use of such techniques does not understate the reserve by a material amount, and the expected value of the reserve calculated using simplifications, approximations and modeling efficiency techniques is not less than the expected value of the reserve calculated that does not use them.

2. **Annual demonstration**: Actuarial judgment is a necessary and appropriate component to PBR. While demonstrations of the impact of modeling simplifications are appropriate, we are concerned that annual demonstrations are excessive, particularly when the actuary reasonably expects no change in the result. For example, for many companies, the alternative reinvestment strategy will consistently produce a higher reserve; it seems excessive to have to demonstrate this annually when the qualified actuary reasonably expects this to be the case. We support

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\(^1\) The American Council of Life Insurers (ACLI) advocates on behalf of 280 member companies dedicated to providing products and services that promote consumers’ financial and retirement security. 90 million American families depend on our members for life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, dental and vision and other supplemental benefits. ACLI represents member companies in state, federal and international forums for public policy that supports the industry marketplace and the families that rely on life insurers’ products for peace of mind. ACLI members represent 95 percent of industry assets in the United States. Learn more at www.acli.com.
addressing this with a simple statement within the VM-31 documentation that notes why the qualified actuary believes a formal demonstration provides no value.

3. **Short-term latitude:** While a few companies have been doing PBR for a few years, 2020 will be the first time it is mandatory for many companies. While companies have done a best effort of getting their products ready, adding this as a mandate creates practical implementation concerns.

ACLI would appreciate the opportunity to further discuss this APF with regulators; we believe we can find a solution that addresses the concerns raised with this APF without codifying excessive requirements that go against the spirit of reasonable model simplifications.

We look forward to a discussion of our proposed language. Thank you.

Sincerely,

cc Reggie Mazyck, NAIC