**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.

American Academy of Actuaries, Life Reserves Work Group

Addition of language to clarify the definition of individually underwritten life insurance and the applicability of Principle-Based Reserve (PBR) requirements for group insurance contracts with individual risk selection issued under insurance certificates.

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, version of the Valuation Manual, with the revisions to APF 2020-11 (adopted by LATF on 2/11/21) shown in blue text.

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 Appendix

All proposed changes specific to this amendment proposal are shown in red text.

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

Individual insurance certificates issued under a group contract which utilize an individual risk selection process, pricing, premium rate structures and product features are similar to individual life insurance policies. They are currently excluded from VM-20 because they are filed under a group contract, but they should be subject to VM-20 due to this similarity. See Appendix.

\* 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 |
| 3/19/19 |  |  |  |
| **Notes:** APF 2019-33 | | | |

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**Appendix**

***Issue***

Certain contracts issued under a master group contract require individual risk selection in order to qualify for issuance of the group insurance certificate; the certificates have similar acquisition approaches, provisions, certificate-holder rights, pricing, and risk classification; and they are managed in a similar manner as individual ordinary life insurance contracts. These individual certificates should follow the same reserve requirements as other individual life contracts of the same product type. Therefore, a change is needed within the *Valuation Manual* to bring these individual certificates into scope of VM-20.

Six changes are recommended:

1. Within the Reserve Requirements section (Section II), change the minimum reserve requirements to also apply to group life contracts which, other than the difference between issuing a policy and issuing a group certificate, have the same or mostly similar contract provisions, risk selection process, and underwriting as individual ordinary life contracts (Section II, subsection 1.D);
2. Within the Reserve Requirements section (Section II), add a transition period for individual group certificates issued on or before 1/1/2024 (Section II, subsections 1.F.1 and 1.F.2);
3. Within the Reserve Requirements section (Section II), add language and guidance note to subsection 1.G and the corresponding footnote to include premiums from group life contracts which have individual certificates that were issued using individual risk selection processes (Section II, subsection 1.G.1, footnote, and guidance note) and to clarify the Calculation for Exemption (Section II, subsection 1.G.2). Comment notes need to refer to NAIC Blanks (E) Working Group to update the PBR Supplement;
4. Add new paragraph, VM-20 Section 1.B (and reformat to make current paragraph Section 1.A) to clarify group life certificates issued using individual risk selection processes, including a definition and requirements to be met, are subject to the requirements of VM-20;
5. Add guidance note after first sentence in VM-20 Section 2.A.1 that group life certificates that meet the definition for individual risk selection process use the same VM-20 Reserving Categories as defined in Section 2;
6. Draft referral to the NAIC Blanks (E) Working Group to revise the VM-20 Reserves Supplement, Part 2 to report premiums for total Group Life and Group Life with certificates subjected to an individual risk selection process and which meet all of the conditions as defined in VM-20 Section 1.B separately.

***VM Changes 1, 2 and 3 – II. Reserve Requirements***

1. **II. Reserve Requirements**

This section provides the minimum reserve requirements by type of product, as set forth in the seven subsections below, as follows:

(1) Life Insurance Products

(2) Annuity Products

(3) Deposit-Type Contracts

(4) Health Insurance Products

(5) Credit Life and Disability Products

(6) Riders and Supplemental Benefits

* 1. (7) Claim Reserves

All reserve requirements provided by this section relate to business issued on or after the operative date of the *Valuation Manual*. All reserves must be developed in a manner consistent with the requirements and concepts stated in the Overview of Reserve Concepts in Section I of the *Valuation Manual*.

**Guidance Note:** The terms “policies” and “contracts” are used interchangeably.

**Subsection 1: Life Insurance Products**

1. This subsection establishes reserve requirements for all contracts issued on and after the operative date of the *Valuation Manual* that are classified as life contracts as defined in SSAP No. 50 in the AP&P Manual, with the exception of annuity contracts and credit life contracts. Minimum reserve requirements for annuity contracts and credit life contracts are provided below in subsection 2 and subsection 5, respectively.
2. Minimum reserve requirements for variable and nonvariable individual life contracts—excluding guaranteed issue life contracts, preneed life contracts, industrial life contracts, and policies of companies exempt pursuant to the life PBR exemption in in ~~paragraph D below—~~subsection 1.G are provided by VM-20, *Requirements for Principle-Based Reserves for Life Products*, except for election of the transition period in ~~paragraph C below~~ subsection 1.F.2 below. For this purpose, joint life policies are considered individual life.
3. Minimum reserve requirements of VM-20 are considered principle-based valuation requirements for purposes of the *Valuation Manual*.
4. Minimum reserve requirements for individual certificates under group life contracts **(regardless of the issue date of the master group life contract)** which meet all the requirements in VM-20 Section 1.B are provided by VM-20, except for election of the transition period in subsection 1.F.1 below.
5. Minimum reserve requirements for life contracts not subject to VM-20 are those pursuant to applicable requirements in VM-A and VM-C. For guaranteed issue life contracts issued after Dec. 31, 2018, mortality tables are defined in VM Appendix M, *Mortality Tables* (VM-M), and the same table shall be used for reserve requirements as is used for minimum nonforfeiture requirements as defined in VM-02, *Minimum Nonforfeiture Mortality and Interest*.
6. A company may elect to establish minimum reserves pursuant to applicable requirements in VM-A and VM-C for:
   1. Business described in subsection 1.D above and issued on or after the operative date of the *Valuation Manual* and prior to 1/1/2024.
   2. Business not described subsection 1.D otherwise subject to VM-20 requirements and issued during the first three years following the operative date of the *Valuation Manual*.

A company electing to establish reserves using the requirements of VM-A and VM-C may elect to use the 2017 Commissioners’ Standard Ordinary (CSO) Tables as the mortality standard following the conditions outlined in VM-20 Section 3. If a company ~~during the three years~~ elects to apply VM-20 to a block of such business, then a company must continue to apply the requirements of VM-20 for future issues of this business.

1. Life PBR Exemption
2. A company meeting ~~the~~ at least one of the conditions in ~~D~~subsection 1.G.2 below may file a statement of exemption for individual ~~ordinary~~ life insurance policies and certificates, except for policies in ~~D~~subsection 1.G.3 below, issued directly or assumed during the current calendar year, that would otherwise be subject to VM-20. If a company has no business issued directly or assumed during the current calendar year that would otherwise be subject to VM-20, a statement of exemption is not required. For a filed statement of exemption, the statement must be filed with the domiciliary commissioner prior to July 1 of that year certifying that at least one of the two conditions in ~~D~~subsection 1.G.2 was met and the statement of exemption must also be included with the NAIC filing for the second quarter of that year.

The domiciliary commissioner may reject such statement prior to September 1 and require the company to follow the requirements of VM-20 for the ordinary life policies covered by the statement.

If a filed statement of exemption is not rejected by the domiciliary commissioner, the filing of subsequent statements of exemption is not required as long as the company continues to qualify for the exemption; rather, ongoing statements of exemption for each new calendar year will be deemed to not be rejected, unless: 1) the company does not meet either condition in ~~D.~~ subsection 1.G.2 below, 2) the policies contain those in ~~D.~~ subsection 1.G.3 below, or 3) the domiciliary commissioner contacts the company prior to Sept. 1 and notifies them that the statement of exemption is rejected. If any of these three events occur, then the statement of exemption for the current calendar year is rejected and a new statement of exemption must be filed and not rejected in order for the company to exempt additional policies. In the case of an ongoing statement of exemption, rather than include a statement of exemption with the NAIC filing for the second quarter of that year, the company should enter “SEE EXPLANATION” in response to the Life PBR Exemption supplemental interrogatory and provide as an explanation that the company is utilizing an ongoing statement of exemption.

2. Condition for Exemption:

~~a.~~ The company has less than $300 million of ~~ordinary life~~exemption premium~~s~~~~1~~, and if the company is a member of an NAIC group ~~of life insurers~~which includes other life insurance companies, the group has combined ~~ordinary life~~exemption premium~~s~~~~1~~ of less than $600 million; or

The only new policies that would otherwise be subject to VM-20 being issued or assumed by the company are due to election of policy benefits or features from existing policies valued under VM-A and VM-C and the company was exempted from, or otherwise not subject to, the requirements of VM-20 in the prior year.

Exemption premium is determined as follows:

a. The amount reported in the prior calendar year life/health annual statement, Exhibit 1, Part 1, Column 3 (“Ordinary Life Insurance”), line 20.1; plus

b. The portion of the amount in the prior calendar year life/health annual statement, Exhibit 1, Part 1, Column 3 (“Ordinary Life Insurance”), line 20.2 assumed from unaffiliated companies; minus

c. Amounts included in either (a) or (b) that are associated with guaranteed issue insurance policies and/or preneed life insurance policies; minus

d. Amounts included in either (a) or (b) that represent transfers of reserves in force as of the effective date of a reinsurance assumed transaction; plus

e. Amounts of premium for individual life certificates issued under a group life certificate which meet the conditions defined in VM-20, Section 1.B, and that are not included in either (a) or (b).

***Guidance Note:***

* + 1. Definitions of preneed and guaranteed issue insurance policy are in VM-01.
    2. For statements of exemption filed for calendar year 2022 and beyond, the amount in subsection 2.e was reported in the prior calendar year life/health annual statement, VM-20 Reserve Supplement, Part 2, if applicable.

3. Policies Excluded from the Life PBR Exemption:

a. Universal life with secondary guarantee (ULSG) policies, or policies – other than ULSG – that contain a rider with a secondary guarantee, in which the secondary guarantee does not meet the VM-01 definition of a “non-material secondary guarantee.”

4. Each exemption, or lack of an exemption, outlined in ~~D.~~ subsection 1.G.1 – ~~D.~~ subsection 1.G.3 above applies only to policies issued or assumed in the current year, and it applies to all future valuation dates for those policies. However, if policies did not qualify for the Life PBR Exemption during the year of issue but would have qualified for the Life PBR Exemption if the current Valuation Manual requirements had been in effect during the year of issue, then the domiciliary commissioner may allow an exemption for such policies. The minimum reserve requirements for the ordinary life policies subject to the exemption are those pursuant to applicable methods required in VM-A and VM-C using the mortality as defined in VM-20 Section 3.C.1 and VM-M Section 1.H.

***VM Change 4 – VM-20: Requirements for Principle-Based Reserves for Life Products***

**VM-20: Requirements for Principles-Based Reserves for Life Products**

### **Section 1: Purpose**

1. These requirements establish the minimum reserve valuation standard for individual life insurance policies issued on or after the operative date of the *Valuation Manual* and subject to a principle-based valuation with an NPR floor under Model #820. These requirements constitute the Commissioners Reserve Valuation Method (CRVM) for policies of individual life insurance.

B. Individual life certificates under a group life contract shall be subject to the requirements of VM-20 if all of the following are met. These requirements constitute the Commissioners Reserve Valuation Method (CRVM) for such certificates.

1. An individual risk selection process, defined as follows, is used to obtain group life insurance coverage;

An individual risk selection process is one that is based on characteristics of the insured(s) beyond sex, gender, age, tobacco usage, and membership in a particular group. This may include, but is not limited to, completion of an application (beyond acknowledgement of membership to the group, sex, gender and age), questionnaire(s), online health history or tele-interview to obtain non-medical and medical or health history information, prescription history information, avocations, usage of tobacco, family history, or submission of fluids such as blood, Home Office Specimens (HOS), or oral fluid. The resulting risk classification is determined based on the characteristics of the individual insured(s) rather than the group, if any, of which it is a member (e.g., employer, affinity, etc.). The individual certificate holder is charged a premium rate based solely on the individual risk selection process and not on membership in a specific group.

***Guidance Note:*** The use of evidence of insurability does not by itself constitute an individual risk selection process. Use of information obtained from a census or question(s) regarding gender, occupation, age, income and/or tobacco usage solely for purposes of determining a rate classification does not by itself qualify a group as having used an individual risk selection process. Group insurance where the underwriting based on the characteristics of the group and census data but where some individuals are subjected to individual risk selection as a result of compensation level, age, an existing medical condition or impairment, late entry into the group, failure of the group to meet minimum participation requirements or voluntary buy-up of increased coverage does not meet the definition of an individual risk selection process.

2. The individual certificates utilize premiums or cost of insurance schedules and charges based on the individual applicant’s issue age, duration from underwriting, coverage amount and risk classification and there is a stated or implied schedule of maximum gross premiums or net cash surrender value required in order to continue coverage in force for a period in excess of one year;

3. The group master contract is designed, priced, solicited, and managed similar to individual ordinary life insurance policies rather than specific to the group as a whole;

4. The individual certificates have similar acquisition approaches, provisions, certificate-holder rights, pricing, and risk classification to individual ordinary life insurance contracts.

5. The individual certificates are issued on or after the operative date of the *Valuation Manual* exceptelection of the transition period in Section 2, subsection 1.F.1*.*

***VM Change 5 - VM-20: Requirements for Principle-Based Reserves for Life Products***

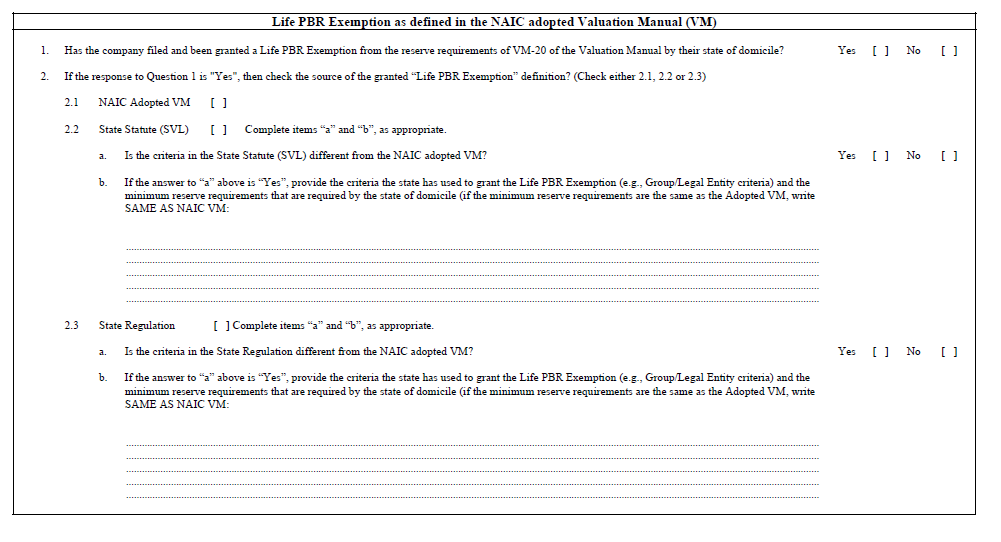
**Section 2: Minimum Reserve**

1. All policies subject to these requirements shall be included in one of the VM-20 Reserving Categories, as specified in Section 2.A.1, Section 2.A.2 and Section 2.A.3 below.

***Guidance Note:*** Since group insurance subject to an individual risk selection process and meeting all the requirements in Section 1.B is subject to VM-20 requirements, Section 2.A shall apply—meaning that any such contracts will be included in one of the VM-20 Reserving Categories defined by Section 2.A.1, Section 2.A.2, and 2.A.3. All requirements in VM-31 which apply to a VM-20 Reserving Category shall apply to any group insurance subject to individual risk selection that has been included in that VM-20 Reserving Category.

The company may elect to exclude one or more groups of policies from the stochastic reserve calculation and/or the deterministic reserve calculation. When excluding a group of policies from a reserve calculation, the company must document that the applicable exclusion test defined in Section 6 is passed for that group of policies. The minimum reserve for each VM-20 Reserving Category is defined by Section 2.A.1, Section 2.A.2 and Section 2.A.3, and the total minimum reserve equals the sum of the Section 2.A.1, Section 2.A.2 and Section 2.A.3 results below, defined as:

### ***VM Change 6 – VM-20 Reserves Supplement, Part 2: Life PBR Exemption***

Refer to NAIC Blanks (E) Working Group, request for modification to the supplemental report for the Life PBR Exemption, to show the premiums for group life that utilized an individual risk selection process and meets all of the requirements in VM-20 Section 1.B. as these premiums are currently grouped together with other group insurance in Exhibit 1. As there are other instances where the ordinary life premiums are not included in the determination of the Life PBR Exemption (e.g., for guaranteed issue policies), it may be useful to request addition of the breakdown of premiums used to determine the exemption.

Possible insertion between questions 1 and 2 for disclosure of premiums used in the determination of eligibility for the Life PBR exemption, split by ordinary life and group subject to an individual risk selection process and meeting all of the requirements in VM-20 Section 1.B.