Dates: Received	Reviewed by Staff	Distributed	Considered
1/12/21	RM		
Notes: VM Amendment Proposal 2021-01			

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.

   John Robinson, Director PBR – Valuation Actuary, MN

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 2021 Edition

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 below.

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

In circumstances where the ceding company computes separate pre-reinsurance and post-reinsurance reserves,

(a) The post-reinsurance reserve is supported by assets held by the company.

(b) The pre-reinsurance reserve is not supported by assets held by the company. According to ASOP 52 (PBR), Section 3.5.2, "…the calculation of a pre-reinsurance-ceded **stochastic reserve** or **deterministic reserve** requires the construction of a hypothetical portfolio of **starting assets** and a corresponding model investment strategy. Possible methods for constructing the hypothetical portfolio include, but are not limited to, the following:…"

(c) When calculating the pre-reinsurance reserve, the company may be able to select sufficient starting assets for the calculation by "borrowing" assets not otherwise assigned to PBR calculations.

(d) When calculating the pre-reinsurance reserve, the company may not be able to select sufficient starting assets for the calculation by "borrowing" assets not otherwise assigned to the PBR calculations. In this case, the qualified actuary might be required to use "notional assets".

(e) The pre-reinsurance reserve is not equivalent to the sum of the reserves held by the respective counterparties.

(f) SERT performed on a pre-reinsurance basis would similarly require 16 hypothetical asset portfolios, and this should be considered in assessing its value.

It follows from these observations that the pre-reinsurance reserve should not be subject to the same level of scrutiny as the post-reinsurance reserve and need not require the same degree of rigor.

The purpose of this APF is, under these circumstances, to eliminate the requirements to

1. perform separate exclusion tests for pre-reinsurance and post-reinsurance reserves; and
2. apply asset collar considerations for the pre-reinsurance reserve.

Implication for the reserve credit:

The following demonstrates that by eliminating pre-reinsurance exclusion tests and following the post-reinsurance exclusion test results, the resulting reserve credit may sometimes be higher and other times lower than when separate tests are performed.

Scenario 1: pre-reserve and post-reserve tested separately

	Post-reserve			Pre-reserve		
	DET	SET	Winning Reserve	DET	SET	Winning Reserve
(a)	Fail	Fail	DR	Pass	Fail	SR
(b)	Pass	Fail	NPR	Fail	Fail	DR

Scenario 2: only post-reserve tested, pre-reserve uses same results

	Post-reserve			Pre-reserve			
	DET	SET	Winning Reserve	DET	SET	Winning Reserve	Comments
(a)	Fail	Fail	DR	Fail	Fail	DR	For pre-reserve, DR>SR, therefore reserve credit is higher than Scenario 1(a).
(b)	Pass	Fail	NPR	Pass	Fail	SR	For pre-reserve, SR<DR, therefore reserve credit is lower than Scenario 1(b).

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APPENDIX

VM-20, Section 8.D: Determination of a Pre-Reinsurance Minimum Reserve

2. The pre-reinsurance-ceded minimum reserve shall be calculated pursuant to the requirements of VM-20, using methods and assumptions consistent with those used in calculating the minimum reserve, but excluding the effect of ceded reinsurance. The remainder of this Section 8.D.2 assumes that the pre-reinsurance-ceded minimum reserve and post-reinsurance-ceded minimum reserve for a group of policies are being calculated separately.

a. If, on a ~~pre~~post-reinsurance-ceded basis, a group of policies ~~is not able to pass~~has not passed one or both of the exclusion tests pursuant to Section 6, then the required deterministic or stochastic reserves shall be calculated in determining the pre-reinsurance-ceded minimum reserve~~, even if not required for the minimum reserve~~.

b. The company shall use assumptions that represent company experience in the absence of reinsurance—for example, assuming that the business was managed in a manner consistent with the manner that retained business is managed—when ~~computing~~ calculating the ~~such~~ pre-reinsurance-ceded minimum ~~exclusion tests and~~ reserve~~s~~.

c. The requirement in Section 7.D.3 regarding the 98% to 102% collar does not apply when determining the amount of starting assets ~~excluding the effect of ceded reinsurance~~for calculating the pre-reinsurance-ceded minimum reserve.

Commented [RJW(1]: Clarify when this guidance applies.

Commented [RJW(2]: Only post-reins exclusion testing required

Commented [RJW(3]: The issue is not whether it is able to pass; it is whether it has passed.

Commented [RJW(4]: Using post-reins exclusion test result. Delete.

Commented [RJW(5]: Consistent wording.

Commented [RJW(6]: Consistent terminology; delete pre-reins exclusion test.

Commented [RJW(7]: Consistent terminology

