**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:**

1. Correct a section reference for the CSMP method in-force modeling requirement in VM-21.

2. Three prescribed assumptions do not have clear requirements for VA contracts with no minimum guaranteed benefits in Additional Standard Projection Amount in VM-21 Section 6.C. These three prescribed assumptions are Partial Withdrawal, Account Value Depletion, and Other Voluntary Contract Termination.

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.B.3.a, VM-21 Section 6.B.6.a, VM-21 Section 6.B.6.b, VM-21 Section 6.C.4, VM-21 Section 6.C.10, VM-21 Section 6.C.11

January 1, 2021 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. VM-21 requires the CSMP method for Additional Standard Projection Amount be applied to a seriatim in-force to capture the impact of model offices under a few deterministic scenarios. There is an incorrect section reference for the in force method required for the prescribed amounts calculation in the CSMP method. There are also other incorrect section references that need to be corrected.

2. VM-21 does not make clear what requirements should be used for VA contract with no minimum guaranteed benefit for the prescribed assumptions for partial withdrawal, account value depletion and other voluntary contract termination. The requirements for these three prescribed assumptions for VA contracts with no minimum guaranteed benefits should be added to VM-21 Section 6.C.

For Partial Withdrawal assumption, it is reasonable to set the partial withdrawal rate at 3.5% or greater for VA contract with no minimum benefit since the prescribed partial withdrawal rate is 3.5% for GMDB only without guaranteed growth in the benefit basis. For Account Value Depletion assumption, the termination is assumed when the Contract’s account value reaches zero. For Other Voluntary Contract Terminations assumption, the requirement should be clearly referred to Table 6.3 defined in Full Surrenders of Section 6.C.6.

**VM-21 Section 6.B.3**

3. Calculation Methodology

a. CSMP Method:

i. Calculate the scenario reserve, as defined in VM-01 and discussed further in Section 4.B, for each of the prescribed market paths outlined in Section 6.B.6 using the same method and assumptions as those that the company uses to calculate scenario reserves for the purposes of determining the CTE70 (adjusted), 2 as outlined in Section 9.C. These scenario reserves shall collectively be referred to as a Company Standard Projection Set.

1. Identify the market path from the Company Standard Projection Set such that the scenario reserve is closest to the CTE70 (adjusted), designated as Path A. This scenario reserve shall be referred to as Company Amount A.
2. Identify the following four market paths:
* Two paths with the same starting interest rate as Path A, but equity shocks +/– 5% from that of Path A.
* Two paths with the same equity fund returns as Path A, but the next higher and next lower interest rate shocks.

From the four paths, identify Path B whose reserve value is:

* If Company Amount A is lower than CTE70 (adjusted), the smallest reserve value that is greater than CTE70 (adjusted).
* If Company Amount A is greater than CTE70 (adjusted), the greatest reserve value that is less than CTE70 (adjusted).

If none of the four paths satisfy the stated condition, discard the identified Path A, and redo steps (iii) and (iv) using the next closest scenario to CTE70 (adjusted) to be the new Path A in step (iii).

For the path designated as Path B, the scenario reserve shall be referred to as Company Amount B.

1. Recalculate the scenario reserves for Path A and Path B using the same method as outlined in step (i) above, but substitute the assumptions prescribed in Section 6.C and use a seriatim in force. These scenario reserves shall be referred to as Prescribed Amount A and Prescribed Amount B, respectively.
2. Calculate the Prescribed Projections Amount as:

Prescribed Projections Amount

=*Prescribed Amount A + (CTE70 (adjusted) − Company Amount A)*

× (𝑃𝑟𝑒𝑠𝑐𝑟𝑖𝑏𝑒𝑑 𝐴𝑚𝑜𝑢𝑛𝑡 𝐵−𝑃𝑟𝑒𝑠𝑐𝑟𝑖𝑏𝑒𝑑 𝐴𝑚𝑜𝑢𝑛𝑡 𝐴)

𝐶𝑜𝑚𝑝𝑎𝑛𝑦 𝐴𝑚𝑜𝑢𝑛𝑡 𝐵−𝐶𝑜𝑚𝑝𝑎𝑛𝑦 𝐴𝑚𝑜𝑢𝑛𝑡 𝐴

**VM-21 Section 6.B.6.a**

a. Equity Fund Returns

Eight equity fund return market paths shall be used. These market paths differ only in the prescribed gross return in the first projection year.

The eight prescribed gross returns for equity funds in the first projection year shall be negative 25% to positive 10%, at 5% intervals. These gross returns shall be projected to occur linearly over the full projection year. After the first projection year, all prescribed equity fund return market paths shall assume total gross returns of 3% per annum.

If the eight prescribed equity fund market paths are insufficient for a company to calculate the additional standard projection amount via steps (i) through (v) outlined in Section 6.B.3.a, then the company shall include additional equity fund market paths that increase or decrease the prescribed gross returns in the first projection year by 5% increments at a time.

**VM-21 Section 6.B.6.b**

If the five prescribed interest rate market paths are insufficient for a company to calculate the Additional Standard Projection Amount via steps (i) through (v) outlined in Section 6.B.3.a, then the company shall include additional interest rate market paths that increase or decrease the prescribed starting Treasury Department rates at each point on the term structure by increments equal to 25% of the difference between the Treasury Department rate as of the valuation date and 0.01%. The lowest interest rate to be used in this analysis is 0.01%.

**VM-21 Section 6.C.4**

4. Partial Withdrawals

j. For contracts with no minimum guaranteed benefits, the partial withdrawal amount each year shall equal 3.5% of the Account Value.

 k. There may be instances where the company has certain data limitations, (e.g., with respect to policies that are not enrolled in an automatic withdrawal program but have exercised a non-excess withdrawal in the contract year immediately preceding the valuation date [Section 6.C.4.g and Section 6.C.4.i]). The company may employ an appropriate proxy method if it does not result in a material understatement of the reserve.

**VM-21 Section 6.C.10**

10. Account Value Depletions

The following assumptions shall be used when a contract’s Account Value reaches zero:

a. If the contract has a GMWB, the contract shall take partial withdrawals

that are equal in amount each year to the guaranteed maximum annual

withdrawal amount.

b. If the contract has a GMIB, the contract shall annuitize immediately. If the

GMIB contractually terminates upon account value depletion, such

termination provision is assumed to be voided in order to approximate the

contract holder’s election to annuitize immediately before the depletion of

the account value.

c. If the contract has any other guaranteed benefits, including a GMDB, the

contract shall remain in-force. If the guaranteed benefits contractually

terminate upon account value depletion, such termination provisions are

assumed to be voided in order to approximate the contract holder’s

retaining adequate Account Value to maintain the guaranteed benefits inforce.

At the option of the company, fees associated with the contract and

guaranteed benefits may continue to be charged and modeled as collected

even if the account value has reached zero. While the contract must remain

in-force, benefit features may still be terminated according to contractual

terms other than account value depletion provisions.

d. If the contract has no minimum guaranteed benefits, the contract should be terminated according to contractual terms.

**VM-21 Section 6.C.11**

11. Other Voluntary Contract Terminations

For contracts that have other elective provisions that allow a contract holder to terminate the contract voluntarily, the termination rate shall be calculated based on the Standard Table for Full Surrenders as detailed above in Table 6.3 with the following adjustments:

a. If the contract holder is not yet eligible to terminate the contract under the

elective provisions, the termination rate shall be zero.

b. After the contract holder becomes eligible to terminate the contract under

the elective provisions, the termination rate shall be determined using the

“Subsequent years” column of Table 6.3.

c. In using Table 6.3, the ITM of a contract’s guaranteed benefit shall be

calculated based on the ratio of the guaranteed benefit’s GAPV to the

termination value of the contract. The termination value of the contract

shall be calculated as the GAPV of the payment stream that the contract

holder is entitled to receive upon termination of the contract; if the contract

holder has multiple options for the payment stream, the termination value

shall be the highest GAPV of these options.

d. For GMWB or hybrid GMIB contracts, for all contract years in which a

withdrawal is projected, the termination rate obtained from Table 6.3 shall

be additionally multiplied by 60%.

For calculating the ITM of a hybrid GMIB, the guaranteed benefit’s

GAPV shall be the larger of the Annuitization GAPV or the Withdrawal

GAPV.

e. For contracts with no minimum guaranteed benefits, ITM is 0%; for all contract years in which a withdrawal is projected, the termination rate obtained from Table 6.3 shall be the row in

the table for ITM < 50% using the “Subsequent years” column of Table 6.3.