**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.

Joint submission by:  
 -- Staff of Office of Principle-Based Reserving, California Department of Insurance  
 -- Texas Department of Insurance

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 9.C.6.e, VM-20 Section  
 9.C.7, VM-31 Section 3.D.3.o.

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 Appendix.

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

See attached Appendix.

NAIC Staff Comments:

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#### Appendix

#### ISSUE:

It has been observed that adding the prescribed mortality margins for some Life/LTC combination products cause modeled reserves to decrease rather than increase.

#### SECTION:

VM-20 Section 9.C.6.e, VM-20 Section 9.C.7, VM-31 Section 3.D.3.o.

#### REDLINE:

**(New) VM-20 Section 9.C.6.e**

e.   In the event that the prescribed mortality margins set forth above do not produce a reserve increase of adequate magnitude – and in particular when the prescribed margins produce a decrease in the reserve – the actuary shall derive and use margins that do produce an appropriately conservative result.

Guidance Note: This can occur, for example, when a rider -- such as a long-term care rider -- is being valued together with the base policy, pursuant to Section II, Subsection 6 of the *Valuation Manual.* Reductions to mortality rates, rather than additions, would potentially be needed in such cases. Such a product/rider combination would likely need to be in its own separate mortality segment. In the case of the product/rider combination, an adequate magnitude for a reserve increase can be thought of in terms of the size of reserve increase that would occur for the product using the tabular prescribed margins if the rider had not been present.

**VM-20 Section 9.C.7.a**

a. If applicable industry basic tables are used in lieu of company experience as the anticipated experience assumptions, or if the level of credibility of the data as provided in Section 9.C.5 is less than 20%, the prudent estimate assumptions for each mortality segment shall equal the respective mortality rates in the applicable industry basic tables as provided in Section 9.C.3, including any applicable improvement pursuant to Section 9.C.3.g, plus the prescribed margin as provided in Section 9.C.6.c, and further adjusted by any applicable margin changes pursuant to Section 9.C.6.d.v and/or Section 9.C.6.d.vi and/or Section 9.C.6.e.

**VM-20 Section 9.C.7.b.v**

v. For each policy in a given mortality segment, from the start of the projection through policy duration E, the prudent estimate mortality assumptions are the company experience mortality rates (as defined in Section 9.C.2), plus the prescribed margin pursuant to Section 9.C.6.b, and further adjusted by any applicable margin changes pursuant to Section 9.C.6.d or Section 9.C.6.e.

**(New) VM-31 Section 3.D.3.o**

            o.  Adjustments to Prescribed Margins - Description and rationale for any adjustments made to prescribed mortality margins pursuant to VM-20 Section 9.C.6.d or 9.C.6.e.

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#### REASONING:

We want to make sure that mortality margins always increase, rather than decreased, the modeled reserve.