**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:**

Rachel Hemphill, Texas Department of Insurance

Ben Slutsker, Minnesota Department of Commerce

**Title of the Issue:**

Clarify retrocessions of YRT business.

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-20 Section 8.C.18

January 1, 2022 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.)

In reviewing companies filing PBR in 2020 for retrocessions of YRT business, companies appropriately treated the pre-reinsurance reserve as 1/2cx and the reserve credit as 1/2cx following VM-20 Section 8.C.18’s instruction for handling non-guaranteed YRT or similar business. However, reviewing these filings raised that the Valuation Manual should be made more clear for such retrocessions. Note that if a company had instead been required to model these retrocessions that are dependent on the YRT, then following the requirements that they “project cash flows consistent with the above outlined treatment for non-guaranteed YRT or similar arrangements”, the company would have had to model cashflows consistent with the 1/2cx treatment for the underlying reinsurance (i.e., a partial year’s cashflows) and then modeled the retrocession terms applied to those partial year cashflows. This would have been unnecessary effort for materially the same result. The inefficiency of the alternative further supports clarifying that this is not the required treatment.

\* 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:

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When the reinsurance ceded or assumed is on a non-guaranteed YRT or similar basis, the corresponding reinsurance cash flows do not need to be modeled. This includes retrocession arrangements covering non-guaranteed YRT reinsurance and similar agreements. Rather, for a ceding company, the post-reinsurance-ceded DR or SR shall be the pre-reinsurance-ceded DR or SR pursuant to Section 8.D.2, plus any applicable provision pursuant to Section 8.C.15 and Section 8.C.17, minus the NPR reinsurance credit from Section 8.B. For an assuming company, the DR or SR for the business assumed on a non-guaranteed YRT or similar basis shall be set equal to the NPR from Section 3.B.8, plus any applicable provision pursuant to Section 8.C.16 and Section 8.C.17. In the case where there are also other reinsurance arrangements that are not on a non-guaranteed YRT or similar basis, the reinsurance credit shall include the modeled reinsurance credit reflecting those other reinsurance arrangements. In particular, where there are also other reinsurance arrangements that are dependent on the non-guaranteed YRT or similar arrangements, actuarial judgment shall be used to project cash flows consistent with the above outlined treatment for non-guaranteed YRT or similar arrangements.