**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:**

General cleanup, including updating cross-references, better consistency between VM-20 and VM-21, where reasonable, and making clarifying edits:

1. **Update cross-references:** Add a reference to the newly added VM-21 Section 12 (general assumption setting) alongside the reference to Section 10 in the Guidance Note after Principle 3 in VM-21.
2. **Update cross-references:** Existing section references are too general to be useful for the asset spread assumptions discussed in VM-21 Section 4.D.4.a.iii and 4.D.4.a.iv.
3. **VM-20/VM-21 Consistency:** VM-21 Sections 4.D.5.a and 4.D.5.b should be made consistent with VM-20; new Sections 4.D.5.c and 4.D.5.d were also added to be consistent with VM-20 where appropriate.
4. **Clarifying Edits:** Avoid the SPA partial withdrawal assumptions from requiring modeling less than the RMD amount for tax qualified contracts with ages greater than or equal to the RMD age in VM-21 Section 6.C.4.
5. **Update cross-references:** Correct section reference errors in VM-21 Sections 6.C.4 and 6.C.5.
6. **Clarifying Edits:** Revenue sharing income assumption requirements need clarification, and language needs cleaning up in VM-20, VM-21, and VM-31.

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:

Issue 1: VM-21 Section 1.B

Issue 2: VM-21 Section 4.D.4.a.iii and 4.D.4.a.iv

Issue 3: VM-21 Section 4.D.5

Issue 4: VM-21 Section 6.C.4

Issue 5: VM-21 Section 6.C.4 and 6.C.5

Issue 6: VM-20 Sections 9.G.7 and 9.G.8, VM-21 Section 4.A.5.f, and VM-31 Sections 3.D.7.c and 3.F.7.c

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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. Add a reference to the newly added Section 12 (general assumption setting Section 12 added by APF 2021-11 for the 2023 Valuation Manual) alongside the reference to Section 10 in the Guidance Note after Principle 3.
2. Existing section references are too general to be useful for the asset spread assumptions discussed in VM-21 Section 4.D.4.a.iii and 4.D.4.a.iv. Edits refer to specific sections of VM-20 gross asset spread assumptions. References parallel those in VM-20 Sections 7.E.1.d and 7.E.1.e.
3. Update VM-21 Section 4.D.5 to be consistent with VM-20, where appropriate. Language added parallels VM-20 Sections 7.F.1, 7.F.2, 7.F.5, and 7.F.6.
4. The current SPA partial withdrawals assumption does not consider the RMD requirement for tax qualified contracts with ages greater than or equal to the federal RMD age. Some companies assumed this was intended to be reflected, but it should be clarified in VM-21.
5. Correct section reference errors in Sections 6.C.4 and 6.C.5.
6. Both VM-20 and VM-21 need to clarify that the haircut prescribed for the non-contractually guaranteed revenue sharing is only a guardrail which is neither redundant to nor a substitution for the margin determination requirements of VM-20 Section 9.G.6 and VM-21 Section 4.F.5.c. Two guidance notes from VM-20 should be added to VM-21 for appropriate consistency. The reporting requirement language which is already in VM-31 should be removed from VM-20 and the reporting requirement in VM-31 is augmented and clarified.

**VM-21 Section 1.B (Guidance Note after Principle 3)**

**Guidance Note:** The intent of Principle 3 is to describe the conceptual framework for setting assumptions. Section 10 provides the requirements and guidance for setting contract holder behavior assumptions and includes alternatives to this framework if the company is unable to fully apply this principle. More guidance and requirements for setting assumptions in general are provided in Section 12.

**VM-21 Section 4.D.4.a.iii and Section 4.D.4.a.iv**

iii. For purchases of public non-callable corporate bonds, use the gross asset spreads over Treasuries prescribed in VM-20 Section 9.F.8.a through Section 9.F.8.c. (For purposes of this subsection, “public” incorporates both registered and 144a securities.) The prescribed spreads reflect current market conditions as of the model start date and grade to long-term conditions based on historical data at the start of projection year four;

iv. For transactions of derivative instruments associated with fixed income investments, reflect the prescribed assumptions in VM-20 Section 9.F.8.d for interest rate swap spreads;

**VM-21 Section 4.D.5**

5. Cash Flows from Invested Assets

a. Cash flows from general account fixed income assets and derivative asset programs associated with these assets, including starting and reinvestment assets, shall be reflected in the projection as follows:

i. Model gross investment income and principal repayments in accordance with the contractual provisions of each asset and in a manner consistent with each scenario. Grouping of assets is allowed if the company can demonstrate that grouping does not materially understate the modeled reserve that would have been obtained using a seriatim approach.

ii. Reflect asset default costs as prescribed in VM-20 Section 9.F and anticipated investment expenses through deductions to the gross investment income.

iii. Model the proceeds arising from modeled asset sales and determine the portion representing any realized capital gains and losses.

iv. Reflect any uncertainty in the timing and amounts of asset cash flows related to the paths of interest rates, equity returns or other economic values directly in the projection of asset cash flows. Asset defaults are not subject to this requirement, since asset default assumptions must be determined by the prescribed method in VM-20 Section 9.F.

b. Cash flows from general account equity assets—i.e., non-fixed income assets having substantial volatility of returns, such as common stocks and real estate— and derivative asset programs associated with these assets, including starting and reinvestment assets, shall be reflected in the projection as follows:

i. Determine the grouping for asset categories and the allocation of specific assets to each category in a manner that is consistent with that used for separate account assets, as discussed in Section 4.A.2.

ii. Project the gross investment return including realized and unrealized capital gains in a manner that is consistent with the stochastically generated scenarios.

iii. Model the timing of an asset sale in a manner that is consistent with the investment policy of the company for that type of asset. Reflect expenses through a deduction to the gross investment return using prudent estimate assumptions.

c. Determine cash flows for each projection interval for all other general account assets by modeling asset cash flows on other assets that are not described in Sections 4.D.5.a and 4.D.5.b using methods consistent with the methods described in Sections 4.D.5.a and 4.D.5.b. This includes assets that are a hybrid of fixed income and equity investments.

d. Determine cash flows or total investment returns as appropriate for each projection interval for all separate account assets as follows:

i. Determine the grouping for each variable fund and subaccount (e.g., bonds funds, large cap stocks, international stocks, owned real estate, etc.) as described in Section 4.A.2.

ii. Project the total investment return for each variable fund and subaccount in a manner that is consistent with the prescribed returns described in Section 4.A.2 and Section 8.C.3.

**VM-21 Section 6.C.4 (Intro)**

* 1. Partial Withdrawals

Partial withdrawals required contractually or previously elected (e.g., a contract operating under an automatic withdrawal provision, or that has voluntarily enrolled in an automatic withdrawal program, on the valuation date) are to be deducted from the Account Value in each projection interval consistent with the projection frequency used, as described in Section 4.F, and according to the terms of the contract. However, if a GMWB or hybrid GMIB contract’s automatic withdrawals results in partial withdrawal amounts in excess of the GMWB’s guaranteed maximum annual withdrawal amount or the maximum amount above which withdrawals reduce the GMIB basis by the same dollar amount as the withdrawal amount (the “dollar-for-dollar maximum withdrawal amount”), such automatic withdrawals shall be revised such that they equal the GMWB’s guaranteed maximum annual withdrawal amount or the GMIB’s dollar-for-dollar maximum withdrawal amount. However, for tax qualified contracts with ages greater than or equal to the federal RMD age, if the prescribed withdrawal amount is below the RMD amount, the withdrawal amount may be reset to the RMD amount.

**Guidance Note:** Companies are expected to model withdrawal amounts consistent with the RMD amount where applicable and where practically feasible; however, it is understood that this level of modeling sophistication may not be available for all companies.

For any contract not on an automatic withdrawal provision as described in the preceding paragraph, depending on the guaranteed benefit type, other partial withdrawals shall be projected as follows but shall not exceed the free partial withdrawal amount above which surrender charges are incurred and may be floored at the RMD amount for tax qualified contracts with ages greater than or equal to the federal RMD age:

**VM-21 Section 6.C.5**

5. Withdrawal Delay Cohort Method

To model the initial withdrawal for certain GMWBs and hybrid GMIBs as discussed in Sections 6.C.4.h and 6.C.4.j ~~6.C.4.f.~~, the actuary shall adopt a modeling approach whereby a contract is split into several copies (referred to as “cohorts”), each of which is subsequently modeled as a separate contract with a different initial withdrawal period. The contract Account Value, bases for guaranteed benefits, and other applicable characteristics shall be allocated across the cohorts based on different weights that are determined using the method discussed below in this section.

**VM-21 Section 4.A.5.f**

1. The amount of net revenue-sharing income assumed in a given scenario shall be applied with a margin to reflect any uncertainty but shall not exceed the sum of (i) and (ii), where:
   1. Is the contractually guaranteed net revenue-sharing income projected under the scenario; and
   2. Is the company’s estimate of non-contractually guaranteed net revenue-sharing income before reflecting any margins for uncertainty multiplied by the following factors:
      * + 1.00 in the first projection year.
        + 0.95 in the second projection year.
        + 0.90 in the third projection year.
        + 0.85 in the fourth projection year.
        + 0.80 in the fifth and all subsequent projection years.

**Guidance Note:** Provisions such as one that gives the entity paying the revenue-sharing income the option to stop or change the level of income paid would prevent the income from being guaranteed. However, if such an option becomes available only at a future point in time, and the revenue up to that time is guaranteed, the income is considered guaranteed up to the time the option first becomes available.

**Guidance Note:** If the agreement allows the company to unilaterally take control of the underlying fund fees that ultimately result in the revenue sharing, then the revenue is considered guaranteed up until the time at which the company can take such control. Since it is unknown whether the company can perform the services associated with the revenue-sharing arrangement at the same expense level, it is presumed that expenses will be higher in this situation. Therefore, the revenue-sharing income shall be reduced to account for any actual or assumed additional expenses.

**VM-20 Section 9.G.7, 9.G.8**

7. The company is responsible for reviewing the revenue-sharing agreements that apply to that group of policies and verifying compliance with these requirements.

1. The amount of net revenue-sharing income assumed in a given scenario shall be applied with a margin to reflect any uncertainty but shall not exceed the sum of (a) and (b), where:
   1. Is the contractually guaranteed GRSI, net of applicable expenses, projected under the scenario.
   2. Is the company’s estimate of non-contractually guaranteed net revenue-sharing income before reflecting any margins for uncertainty multiplied by the following factors:

**VM-31 Section 3.D.7.c**

c. Revenue-Sharing Margins – The level of margin in the prudent estimate assumptions for revenue-sharing income and description of the rationale for the margin for uncertainty. Also, a demonstration that the amounts of net revenue-sharing income, after reflecting margins, do not exceed the limits set forth in VM-20 Section 9.G.8.

**VM-31 Section 3.F.7.c**

c. Revenue-Sharing Margins – The level of margin in the prudent estimate assumptions for revenue-sharing income and a description of the rationale for the margin for uncertainty. Also, a demonstration that the amounts of net revenue-sharing income, after reflecting margins, do not exceed the limits set forth in VM-21 Section 4.A.5.f.