

## 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.

Brian Bayerle, ACLI – Clarify requirements on groups of contracts that use the Alternative Method/AG33 in VM-21 and are not subject to a principles-based valuation. Such contracts should not be not subject to VM-G but still require a sub-report under 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:

Valuation Manual Jan. 1, 2023 Edition; VM-21 Section 3.E, VM-31 Section 2.A, VM-G Section 1 and Section 4.A.3.

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.)

There is some ambiguity about the governance requirements if a principles-based valuation is not performed.

\* 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:

<b>Dates:</b> Received	Reviewed by Staff	Distributed	Considered
11/4/22	SO		
<b>Notes:</b> APF 2022-08			

## VM-21

### Section 3: Reserve Methodology

#### E. Alternative Methodology

For a group of variable deferred annuity contracts that contain either no guaranteed benefits or only GMDBs—i.e., no VAGLBs—the reserve may be determined using the Alternative Methodology described in Section 7 rather than using the approach described in Section 3.C and Section 3.D. However, in the event that the approach described in Section 3.C and Section 3.D has been used in prior valuations for that group of contracts, the Alternative Methodology may not be used without approval from the domiciliary commissioner.

The reserve for the group of contracts to which the Alternative Methodology is applied shall not be less than the aggregate cash surrender value of those contracts.

Groups of contracts to which the Alternative Methodology is applied are only subject to the applicable requirements for the Alternative Methodology in VM-21. Groups of contracts to which the Alternative Methodology is applied are subject to the applicable sub-report requirements outlined in VM-31 Sections 3.E and 3.F. Groups of contracts to which the Alternative Methodology is applied are not subject to the requirements of VM-G Sections 2 and 3.

## VM-31

### Section 2: General Requirements

- A. Each year a company shall prepare, under the direction of one or more qualified actuaries, as assigned by the company under the provisions of VM-G, a PBR Actuarial Report if the company computes a deterministic reserve or stochastic reserve or performs an exclusion test for any policy as defined in VM-20, or computes an aggregate reserve for any contract as defined in VM-21.

A company that does not compute any deterministic or stochastic reserves under VM-20 for a group of policies as a result of the policies in that group passing the exclusion tests as defined in VM-20 Section 6 must still develop a sub-report for that group of policies that addresses the relevant requirements of Section 3.

A company that computes reserves under the Alternative Methodology defined in VM-21 must still develop a sub-report with the applicable requirements to the Alternative Methodology for that group of policies that addresses the relevant requirements of Section 3.

## VM-G

### Section 1: Introduction, Definition and Scope

- A. The corporate governance guidance provided in VM-G is applicable only to a principle-based valuation calculated according to methods defined in VM-20 and VM-21, **except for the following condition:**

For a company that does not compute any deterministic or SR under VM-20 as a result of passing the exclusion tests as defined in VM-20 Section 6, and ~~it does not calculate any~~ all contracts subject to reserves under VM-21 are determined by application of the **Alternative Methodology**, VM-G Sections 2 and 3 below are generally not applicable; the requirements of Section 4 are still applicable. However, if the company calculated the SERT using the DR method outlined in VM-20 Section 6.A.2.b.i.a, or the Stochastic Exclusion Demonstration Test outlined in VM-20 Section 6.A.3, then VM-G Sections 2 and 3 are applicable.

#### Section 4: Responsibilities of Qualified Actuaries

- A.3 The responsibility for providing a summary report to the board and to senior management on the valuation processes used to determine and test PBR, the principle-based valuation results, the general level of conservatism incorporated into the company's PBR, the materiality of PBR in relationship to the overall liabilities of the company, and significant and unusual issues and/or findings.

If Sections 2 and 3 are not applicable because the company met the requirements to be exempt from Section 2 and Section 3 as outlined in Section 1.A, this particular reporting to board and senior management is limited to:

- a. For VM-20, notifying senior management if the company is at risk of failing either exclusion test, and if so, reporting on the company's readiness to calculate deterministic and SR-; and
- b. For VM-21, notifying senior management if the company may not be able to use the Alternative Methodology for all business subject to VM-21, and if so, reporting on the company's readiness to calculate a SR.