

## 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:**

Elaine Lam, Office of PBR, California Department of Insurance (CDI)

**Title of Issue:**

Proposal to add disclosure requirements in VM-31, and clarify language in the Annual Statement Instructions related to reporting in the VM-20 Reserves Supplement.

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, 2023 edition) – Proposal to add new section as VM-31 Section 3.C.11

2022 Annual Statement Instructions – Proposal to add a sentence to the instructions for “VM-20 Reserves Supplement”, starting on page 807

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 disclosure requirements in VM-31 for the Company to reconcile reported values and explain differences (if any) between reported values in the VM-31 Report (High-Level Results section), in the VM-20 Reserves Supplement (Parts 1A and 1B), and in the Annual Statement (Exhibit 3 for Separate Account values, Exhibit 5 for General Account values, and any other). Regulators have found inconsistencies in the values reported in the different locations. Moreover, without these disclosures, regulators have had a difficult time reconciling values and checking for misreported values.

2. Make a referral to the Blanks (E) Working Group to update the Annual Statement Instructions for the VM-20 Reserves Supplement to clarify that separate account amounts should be included in the Supplement. There has been inconsistent reporting by companies because the current instructions do not specifically address the treatment of separate account amounts.

\* 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:

| Dates: Received                    | Reviewed by Staff | Distributed | Considered |
|------------------------------------|-------------------|-------------|------------|
| 1/29/23                            | SO                |             |            |
| Notes: <a href="#">APF 2023-02</a> |                   |             |            |

New proposed language in the *Valuation Manual* is in redline below:

(new section)

**VM-31 Section 3.C.11**

11. **Reconciliation of Reported Values** – A reconciliation of reported values and an explanation of differences, if any, between reported values in Section 3.B.5 (High-Level Results), in the VM-20 Reserves Supplement – Part 1A and Part 1B, and in the Annual Statement (Exhibit 3 for Separate Account values, Exhibit 5 for General Account values, and any other).

For referral to the Blanks (E) Working Group, new proposed language in the Annual Statement Instructions is in redline below:

**VM-20 RESERVES SUPPLEMENT**

**Life Insurance Reserves Valued According to VM-20 by Product Type**

This Supplement provides information on the reserves required to be calculated by Section VM-20 of the *Valuation Manual*. This includes the Net Premium Reserve and, as applicable, the Deterministic Reserve and the Stochastic Reserve. Only business issued on or after Jan. 1, 2017, valued by the requirements of VM-20 should be reported in Part 1A and Part 1B. Part 1A and Part 1B are intended to aid regulators in the analysis of reserves as determined under Section VM-20 of the *Valuation Manual* for both the prior and current year.

This Supplement also provides information regarding business where VM-20 of the *Valuation Manual* is not required to be applied. Companies exempted from the requirements of Section VM-20 are not required to complete Part 1A or Part 1B of this Supplement but must complete Part 2 or Part 3 as applicable.

**VM-20 RESERVES SUPPLEMENT – PART 1A**

**Life Insurance Reserves Valued According to VM-20 by Product Type**

Part 1A of this Supplement breaks out, by product type, the prior year and current year reported reserves on a Post-Reinsurance-Ceded and Pre-Reinsurance-Ceded basis as defined in Section 8.D of Section VM-20 of the *Valuation Manual*. The Due and Deferred Premium Asset for the current year is also shown.

Section VM-20 of the *Valuation Manual* requires that the Post-Reinsurance-Ceded Reserve be determined by three VM-20 Reserving Categories: Term Insurance, Universal Life with Secondary Guarantees (ULSG) and all other. Term Insurance should be reported on line 1.1. ULSG, including Variable Universal Life with a secondary guarantee, Indexed life insurance with a secondary guarantee, regular Universal Life with a secondary guarantee, and ULSG policies with a non-material secondary guarantee as defined in Section VM-01 of the *Valuation Manual*, should be reported on line 1.2. Each of the other products reported in lines 1.3 – 1.8 should be determined as the sum of the policy reserves using the policy reserves determined following the allocation process of VM-20 Section 2. A similar process should be used for each of the pre-reinsurance-ceded reserves. **Both Post-Reinsurance-Ceded Reserves and Pre-Reinsurance-Ceded Reserves, as defined in VM-20, include separate account amounts where applicable to the policies in scope.**

**Columns 1 & 2 – Reported Reserve**

Provide the reported reserve, in whole dollars, for the prior year and current year for each line item. Post-Reinsurance-Ceded is net of reinsurance ceded. Pre-Reinsurance-Ceded should be prior to any reinsurance ceded and include reinsurance assumed. Sections 2 and 8 in the *Valuation Manual* further describe the required reserve and treatment of reinsurance. The reported reserve for the current year should reflect all policies in force as of the end of the current year. The reported reserve for the prior year should reflect all policies in force as of the end of the prior year.

Etc...