**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:**

ACLI and provisionally[[1]](#footnote-1) Rachel Hemphill, Texas Department of Insurance

**Title of the Issue:**

Minimum reserve requirements for deposit-type contracts with pre-defined cash flows and no optionality that are not in scope of VM-22.

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:

January 1, 2024, NAIC Valuation Manual, II. Reserve Requirements, Subsection 3: Deposit-Type Contracts

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.)

**Subsection 3: Deposit-Type Contracts**

1. This subsection establishes reserve requirements for all contracts classified as deposit-type contracts defined in SSAP No. 50 in the AP&P Manual.
2. Minimum reserve requirements for deposit-type contracts are those requirements as found in VM-A, VM-C and VM-22, as applicable. With prior approval of the domiciliary commissioner, a company may determine statutory maximum valuation interest rates for funding agreements based on daily rather than annual rates, using a weighting factor of 1, and without rounding. That is, with domiciliary commissioner approval, the company may use the daily Moody’s composite yield on seasoned corporate bonds (MOODCAVG) from the day prior to the funding agreement issuance as the statutory maximum valuation interest rate.

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

**Proposal**

* Utilize daily rate directly as the valuation rate:  
  Val Rate = Daily Moody’s composite yield on seasoned corporate bonds (MOODCAVG) from the day prior to the funding agreement issuance

**Rationale**

* The MOODCAVG on the day prior to issue better aligns with the yield on available assets and the interest rate environment at issue than the current valuation rate, which utilizes as the Reference Rate a twelve-month rolling average of the MOODCAVG ending on June 30 of the calendar year of issue.
* Funding agreements are typically issued in a large size on a single day.
* Statutory reserve valuation rate is not known for the first half of the year.
* Does not result in appropriate valuation rates when there is significant movement in interest rates.
* Insurance companies can find it challenging to generate sufficient returns on new funding agreements in the current market to cover the higher regulatory reserve requirements.

**Basis for Using a Weighting Factor of 1**

* Funding agreements are less risky than annuities because the cash flows are fixed and there is no optionality.
* Currently, a weighting factor of 1 is used for short-duration agreements valued on a change-in-fund basis, so the precedent exists.
* The weighting factors that exist in the SVL decrease with longer durations, assigning the lowest rates to the longest liabilities.  This does not account properly for the risk when interest rates exceed 3%.  This was addressed for income annuities when VM-22 was drafted but hasn’t yet been addressed for funding agreements, as they’re not in scope for VM-22.
* This will make the valuation rates more uniform across the industry, as the current weighting factors vary by issue-year vs change-in-fund basis.

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| **Dates:** Received | Reviewed by Staff | Distributed | Considered |
| 03/26/2024, 4/3/24 | K. K |  |  |
| **Notes:** APF-2024-05 | | | |

1. Wholly supportive of incorporating reasonable, neutral practices that may have previously been allowed as permitted practices, like allowing the use of more frequent rate determination, explicitly into the Valuation Manual. Reserving judgment on the weighting factor change until a robust LATF discussion. [↑](#footnote-ref-1)