**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 Rachel Hemphill, Texas Department of Insurance

**Title of the Issue:**

Minimum reserve requirements for deposit-type contracts with pre-defined cash flows and no withdrawal permitted 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.
3. For deposit-type contracts with pre-defined cash flows and no withdrawal permitted prior to the contract maturity date that are not in scope of VM-22, the company may elect to consistently determine statutory maximum valuation rates with the following adjustments to the requirements found in Model #820:
   1. The statutory maximum valuation rate shall be determined monthly;
   2. The reference rate shall be defined as the monthly average of the composite yield on seasoned corporate bonds, as published by Moody’s Investors Service, Inc., for the month prior to contract issue; and
   3. The statutory maximum valuation rate shall be rounded to the nearest one-hundredth of one percent (1/100 of 1%).

The company [shall notify / must receive approval from] the Commissioner of the state of domicile before making such an election. Such an election may be made for contracts issued on or after Jan. 1, 2025, or for contracts issued on or after the operative date of the Valuation Manual, but once a company has made such an election, the company shall continue to determine statutory maximum valuation rates using the same methodology for future valuations.

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

**Current Methodology**

* The valuation rate is determined annually and applied on a calendar year basis.
* It is based on an annual average of interest rates ending on 6/30 of the issue year:  
  Val Rate = 3% + Weight x (Reference Rate – 3%), rounded to the nearest 25bps, where:
  + Weight is based on Plan Type, duration, reserve basis, presence of a future interest guarantee.
  + Reference Rate is the average over a period of twelve (12) months, ending on June 30 of the calendar year of issue or purchase, of the MOODCAVG.

**Rationale**

* The monthly average rate 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.
* The monthly average rate is publicly available.
* The contracts 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 contracts in the current market to cover the higher regulatory reserve requirements.

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| **Dates:** Received | Reviewed by Staff | Distributed | Considered |
| 03/26/2024, 4/3/24, 5/7/24 | K. K, S.O. |  |  |
| **Notes:** APF-2024-05 | | | |