**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:**

Jonah von der Embse, MAAA, FSA, CERA; Member, PBR Implementation Subcommittee

Dave Neve, MAAA, FSA, CERA; Member, PBR Implementation Subcommittee

Chanho Lee, MAAA, FSA; Member, PBR Implementation Subcommittee

Linda Lankowski, MAAA, FSA; Chairperson, PBR Implementation Subcommittee

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**Title of the Issue:**

Changes to the calculation of the NAER on additional assets for VM-21.

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:

VM-21 Section 4.B.3 (Also applicable to the working draft of VM-22 Section 4.B.3, and would also apply to VM-20 if APF 2023-10 is adopted)

January 1, 2024, NAIC Valuation Manual

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 attachment.

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

When discussing the NAER on additional assets, the VM’s phrasing is vague on how the initial additional asset portfolio is constructed and how it is reinvested.

For the initial additional assets, the subcommittee believes that it is appropriate to modify the VM to add to the guidance note three different strategies of creating this portfolio, including specifying that one option—a pro-rata slice of the actual initial assets—would still be appropriate, as this is consistent with the Direct Iteration Method when solving for the initial assets. Additionally, we believe that it should be specified that the selection of assets to be included in the initial additional asset portfolio be the same across all scenarios. We believe this statement would prevent a situation where a company might allocate cash or different asset types to certain scenarios to produce a higher NAER on additional assets due to knowing the amount of accumulated deficiencies for each scenario.

For the reinvestment, we believe it is appropriate to add the phrase that the additional asset portfolio is also subject to the alternative investment strategy discussed in section 4.D.4.b. As currently drafted, the phrasing allows for enough ambiguity such that a company could reasonably state that it is following the alternative investment strategy for the actual reinvestment while the additional asset portfolio still follows the company best estimate strategy. To promote regulatory consistency with the Direct Iteration Method, we believe it should not be allowed.

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| **Dates:** Received | Reviewed by Staff | Distributed | Considered |
| 4/24/24 | S.O. |  |  |
| **Notes:** 2024-08 | | | |

1. Determination of NAER on Additional Invested Asset Portfolio
2. The additional invested asset portfolio for a scenario is a portfolio of general account assets as of the valuation date, outside of the starting asset portfolio, that is required in that projection scenario so that the projection would not have a positive accumulated deficiency at the end of any projection year. This portfolio may include only (i) General Account assets available to the company on the valuation date that do not constitute part of the starting asset portfolio; and (ii) cash assets.

Additional invested assets should be selected in a manner such that if the starting asset portfolio were revised to include the additional invested assets, the projection would not be expected to experience any positive accumulated deficiencies at the end of any projection year. The additional invested asset portfolio can be comprised of one or more of the following:

(i) Pro-rata slice of the starting asset portfolio

(ii) Cash that is immediately reinvested

(iii) A combination of assets that would be transferred to the portfolio from the general account to cover a potential shortfall

It is assumed that the accumulated deficiencies for this scenario projection are known. Assets selected for the additional invested asset portfolio should be based on the same allocation methodology for all scenarios.

The company should be able to support that these additional assets are not double counted across various PBR calculations. For example, it would be inappropriate to assume the same asset was “transferred to the portfolio from the general account” for the same economic scenario for both VM-21 and VM-22.

1. To determine the NAER on additional invested assets for a given scenario:
2. Project the additional invested asset portfolio as of the valuation date to the end of the projection period,
3. Investing any cash in the portfolio and reinvesting all investment proceeds using the company’s investment policy, subject to the alternative investment strategy described in section 4.D.4.b.
4. Excluding any liability cash flows.
5. Incorporating the appropriate returns, defaults and investment expenses for the given scenario.
6. If the value of the projected additional invested asset portfolio does not equal or exceed the accumulated deficiencies at the end of each projection year for the scenario, increase the size of the initial additional invested asset portfolio as of the valuation date, and repeat the preceding step.
7. Determine a vector of annual earned rates that replicates the growth in the additional invested asset portfolio from the valuation date to the end of the projection period for the scenario. This vector will be the NAER for the given scenario.

**Guidance Note:** There are multiple ways to select the additional invested asset portfolio at the valuation date. Similarly, there are multiple ways to determine the earned rate vector. The company shall be consistent in its choice of methods, from one valuation to the next.