

RICARDO LARA

CALIFORNIA INSURANCE COMMISSIONER

June 3, 2021

Mr. Mike Boerner

Chair, Life Actuarial Task Force

National Association of Insurance Commissioners

**Re: APF 2021-07**

Dear Mike:

In the event that LATF decides to move forward with APF 2021-07, California wishes to suggest a few minor edits, which we would characterize as friendly amendments. See attached for details.

Sincerely,



Ben Bock, FSA, MAAA

Senior Life Actuary

California Department of Insurance

CC: Reggie Mazyck, NAIC

Friendly Amendment Suggestions for APF 2021-07

California has 5 suggestions. The first four relate directly to APF 2021-07 itself and the other is an idea for improving the “flow” of this part of the VM “while we are at it”.

We also agree with Craig Chupp that VM-20 Section 3.B.1.b in the APF should have been labeled 3.B.1.d.

Our wording suggestions below are yellow highlighted.

*Suggestion #1 – By combining 3.B.5 and 3.B.6 into one section, that section (new 3.B.5) now has two different valuation net premiums being defined within it. Therefore the reference to the 3.B.5 valuation net premium that occurs in Section 2.A.2.c ought to clarified.*

VM-20 Section 2.A.2.c

1. The due and deferred premium asset, if any, shall be based on the valuation net premiums computed in accordance with Section 3.B.5.d, for the base policy, determined without regard to any NPR floor amount from Section 3.D.2.

*Suggestion #2 – In the 2021 Valuation Manual, in VM-20, Section 3.B.5 and 3.B.6 use different valuation interest rates. This fact is reflected clearly in the wording of the introductions to VM-20 Sections 3.C.2.a and 3.C.2.b. The APF as proposed diminishes this clarity. Accordingly we suggest:*

VM-20 Section 3.C.2.a

1. For NPR amounts calculated according to Section 3.B.5.d:

VM-20 Section 3.C.2.b

b. For NPR amounts calculated according to Section 3.B.4 or Section 3.B.5.c:

*Suggestion #3 – Similarly, the current Section 3.B.5 and 3.B.6 use different lapse rates. This fact is reflected clearly in the wording of the introductions to VM-20 Sections 3.C.3.a and 3.C.3.c. of the 2021 Valuation Manual. The distinction is not as clear any more in the APF as currently worded. Accordingly we suggest:*

VM-20 Section 3.C.3.a

1. For NPR amounts calculated according to Section 3.B.5.d, the lapse rates used shall be 0% per year during the premium paying period and 0% per year thereafter.

 VM-20 Section 3.C.3.c

c. For NPR amounts calculated according to Section 3.B.5.c, the lapse rate, Lx+t, for an insured age *x* at issue for all durations subsequent to the valuation date shall be determined as follows:

*Suggestion #4 – A Section reference was not updated in the logic for computing Ex+t (however, this change would be trumped by Suggestion #5 below if Suggestion #5 is adopted) :*

 VM-20 (new) Section 3.B.5.d.ii

* + 1. Using the level gross premium from Section 3.B.5.d.i, determine the value of the expense allowance components for the policy at issue as *x1*, *y2-5* and *z1* defined below.

$x\_{1}$*x1* = a first-year expense equal to the level gross premium at issue

*y2-5* = an expense equal to 10% of the level gross premium and applied in each year from the second through fifth policy year

*z1*= a first-year expense of $2.50 per $1,000 of insurance issued

The expense allowance shall be amortized over the period during which premiums are permitted to be paid. *Ex+t*, the expense allowance balance, as of the end of policy year t, shall be calculated as follows:

$E\_{x+t}$= 𝑉𝑁𝑃𝑅 ⦁ $\ddot{a}\_{x+t:\left.\overbar{s-t}\right|}\left[{\left(x\_{1}+z\_{1}\right)}/{\ddot{a}\_{x:\overbar{\left.s\right|}}}+y\_{2-5}⦁C\_{x+t }\right]\_{}$ for t < s

 = 0 for t ≥ s

Where:

 t = 1,2,.. (number of completed years since issue)

$$VNPR=Valuation Net Premium Ratio from 3.B.5.c.d.iii$$

*Suggestion #5 – In computing Ex+t, the steps shown involve using the value of VNPR prior to the step in which VNPR is calculated. It would seem more logical to place the calculation of VNPR prior to the Ex+t calculation. This occurs in two different places. Thus we suggest:*

VM-20 (new) Section 3.B.5.c.i

* 1. As of the policy issue date:
		+ 1. Determine the level gross premium at issue, assuming payments are made each year for which premiums are permitted to be paid, such period defined as v years in this subsection, that would keep the policy in force to the end of year n, based on policy provisions, including the secondary guarantee provisions, such as mortality, interest and expenses. In no event shall v be greater than n for purposes of the NPR calculated in this subsection.
1. Determine the annual valuation net premiums at issue as that uniform percentage (the valuation net premium ratio) of the respective gross premiums such that at issue the actuarial present value of future valuation net premiums over the n-year period shall equal the actuarial present value of future benefits over the n-year period. The valuation net premium ratio determined shall not change for the policy.

3. Using the level gross premium from Section 3.B.5.c.i.1 above, determine the value of the expense allowance components for the policy at issue as $x\_{1}$,$ y\_{2-5}$ and $z\_{1}$ defined below.

$x\_{1}$= a first-year expense equal to the level gross premium at issue

$y\_{2-5}$= an expense equal to 10% of the level gross premium and applied in each year from the second through fifth policy year

$z\_{1}$= a first-year expense of $2.50 per $1,000 of insurance issued

The expense allowance shall be amortized over the span of years in the secondary guarantee period during which premiums are permitted to be paid. *Ex+t*$, $the expense allowance$ $ balance as of the end of the policy year t, shall be computed as follows:

$E\_{x+t}= VNPR⦁\ddot{a}\_{x+t:\overline{v-t|}}$ $\left[\frac{x\_{1}+z\_{1}}{\ddot{a}\_{x:\overbar{v|}}}+ y\_{2-5} ⦁ C\_{x+t}\right] $ for t < v

= 0 for t ≥ v

Where:

t = 1,2,.. (number of completed years since issue)

*VNPR = Valuation Net Premium Ratio from
3.B.5.c.i.~~3.~~2 above*

$C\_{x+t}$ = 0 when t = 1

=$\sum\_{w=1}^{t-1}(1/\ddot{a}\_{x+w:\overbar{v-w|}} )$ when 2≤ t ≤5

$ =C\_{x+5}$ when t>5

1. ~~Determine the annual valuation net premiums at issue as that uniform percentage (the valuation net premium ratio) of the respective gross premiums such that at issue the actuarial present value of future valuation net premiums over the n-year period shall equal the actuarial present value of future benefits over the n-year period. The valuation net premium ratio determined shall not change for the policy.~~

VM-20 (new) Section 3.B.5.d

* + 1. A reserve amount for the policy shall be calculated assuming the secondary guarantee is not in effect. The reserve amount shall be determined by the policy features and guarantees of the policy without considering any secondary guarantee provisions as follows:
1. Determine the level gross premium at issue, assuming payments are made each year for which premiums are permitted to be paid, such period defined as “s” in this subsection, that would keep the policy in force for the entire period coverage is to be provided based on the policy guarantees of mortality, interest and expenses.

ii. Determine the annual valuation net premiums as that uniform percentage (the valuation net premium ratio) of the respective gross premiums, such that at issue the actuarial present value of future valuation net premiums shall equal the actuarial present value of future benefits.

iii. Using the level gross premium from Section 3.B.5.d.i, determine the value of the expense allowance components for the policy at issue as *x1*, *y2-5* and *z1* defined below.

$x\_{1}$*x1* = a first-year expense equal to the level gross premium at issue

*y2-5* = an expense equal to 10% of the level gross premium and applied in each year from the second through fifth policy year

*z1*= a first-year expense of $2.50 per $1,000 of insurance issued

The expense allowance shall be amortized over the period during which premiums are permitted to be paid. *Ex+t*, the expense allowance balance, as of the end of policy year t, shall be calculated as follows:

$E\_{x+t}$= 𝑉𝑁𝑃𝑅 ⦁ $\ddot{a}\_{x+t:\left.\overbar{s-t}\right|}\left[{\left(x\_{1}+z\_{1}\right)}/{\ddot{a}\_{x:\overbar{\left.s\right|}}}+y\_{2-5}⦁C\_{x+t }\right]\_{}$ for t < s

 = 0 for t ≥ s

Where:

 t = 1,2,.. (number of completed years since issue)

$VNPR=Valuation Net Premium Ratio from 3.B.5.c$*d.ii above*

$C\_{x+t }$= 0 when t = 1

 = $\sum\_{w=1}^{t-1}({1}/{\ddot{a}\_{x+w:\left.\overbar{s-w}\right|}})$ when 2 ≤ t ≤ 5

 =$ C\_{x+5}$ when t > 5

~~iii. Determine the annual valuation net premiums as that uniform percentage (the valuation net premium ratio) of the respective gross premiums, such that at issue the actuarial present value of future valuation net premiums shall equal the actuarial present value of future benefits.~~

BB

5/28/21