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Mr. Ben Slutsker
Chair, VM-22 Subgroup
National Association of Insurance Commissioners

Dear Mr. Slutsker,

The New Jersey Department of Banking and Insurance (NJ DOBI) appreciates the opportunity to provide input to the VM-22 Subgroup regarding the currently exposed draft framework for VM-22. The purpose of this letter is to provide input related to the aggregation approach outlined in VM-22. Specifically, our comments relate to current Section 3.D.3.

We understand that there is current work underway regarding the appropriate approach for aggregation under VM-22, and the current language of subparagraph 3 states "The reserve may be determined in aggregate across various groups of contracts as a single model segment when determining the SR." While we understand that under a principle-based framework there may be a desire to allow "credit" in the reserves for diversification across individual products or individual policies, we have some concern that full aggregation of all business in the scope of VM-22 may produce inappropriately low reserves. In some instances, products subject to VM-22 may involve future premium or fee revenue that exceeds future benefits, resulting in a negative reserve. If VM-22 indicates that all business may be aggregated, this could imply that certain blocks of business will have reserves that implicitly rely on the future premiums or fees associated with other blocks of business.

As an example, consider a company that has two blocks of business: traditional Single Premium Immediate Annuities (SPIAs) and Longevity Reinsurance (both of which are defined in VM-22). The reserves for the SPIAs would be based on the present value of future benefits and expenses, and a positive reserve would result under a principle-based calculation. For Longevity Reinsurance (which has periodic premium payments throughout the contract life), a principle-based calculation would likely produce a negative reserve, at least in early durations, since the present value of future premiums would exceed the present value of future benefits and expenses (assuming the product was appropriately priced). Under an aggregation approach across all lines of business, the positive SPIA reserves would be reduced by the Longevity Reinsurance negative reserve.

Under current statutory reserving approaches, negative reserves are avoided via the use of net premium approaches. For example, for annual premium whole life insurance, reserves are calculated using net premiums rather than gross premiums to avoid a negative reserve at issue. This net premium reserve approach was maintained as a floor in VM-20.

We strongly recommend a similar approach for Longevity Reinsurance and other products within VM-22 that may generate negative reserves. Rather than including all future premiums in the principle-based reserve calculation under VM-22, reserves should be calculated and floored using only the net premiums that are solved for at issues such that the starting reserve is no less than $0. This would serve to ensure that a negative reserve is not held on any product group, and then offset with positive reserves for other product groups.

If there is general agreement regarding such a modification, we would be happy to work with the VM-22 subgroup to draft specific language outlining this approach for inclusion in VM-22.

If you have any questions regarding this letter, please do not hesitate to contact me at Seong-min.eom@dobi.nj.gov.

Sincerely,

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Chief Actuary, Life and Health
New Jersey Department of Banking and Insurance