**RESERVING CATEGORY DEFINITIONS**

The Term “Payout Annuity Reserving Category” includes the following categories of contracts, certificates and contract features, whether group or individual, including both life contingent and term certain only contracts, directly written or assumed through reinsurance, with the exception of benefits provided by variable annuities. For the purposes of the “Payout Annuity Reserving Category”, Longevity Reinsurance shall be excluded from the following categories of contracts, certificates and contract features.

:

1. Immediate annuity contracts;
2. Deferred income annuity contracts;
3. Structured settlements in payout or deferred status;
4. Fixed income payment streams resulting from the exercise of settlement options or annuitizations of host contracts issued;
5. Supplementary contracts, excluding contracts with no scheduled payments (such as retained asset accounts and settlements at interest);
6. Fixed income payment streams attributable to guaranteed living benefits associated with deferred annuity contracts, once the contract funds are exhausted;
7. Certificates, emanating from non- variable group annuity contracts specified in Model #820, Section 5.C.2, purchased for the purpose of providing certificate holders fixed income payment streams upon their retirement; and
8. Pension Risk Transfer Annuities.

The term “Longevity Reinsurance Reserving Category” refers to Longevity Reinsurance under the definition provided in [VM-01 or VM-22 Section 1.d of the Valuation Manual].

The term “Accumulation Reserving Category” are all annuities within scope of VM-22 under Section II of the NAIC Valuation Manual that are not in the “Payout Reserving Category” or “Longevity Reinsurance Reserving Category”.

***Drafting Note:*** *Intent is to not permit aggregation between longevity reinsurance and other contracts for VM-22 PBR calculations.*

# Section 4: Determination of SR

## Projection of Accumulated Deficiencies

1. General Description of Projection

The projection of accumulated deficiencies shall be made ignoring federal income tax in both cash flows and discount rates, and it shall reflect the dynamics of the expected cash flows for the entire group of contracts, reflecting all product features, including any guarantees provided under the contracts using prudent estimate liability assumptions defined in Sections 10 and 11 and asset assumptions defined in Sections 4 and 9. The company shall project cash flows including the following:

1. Gross premium received by the company from the contract holder (including any due premiums as of the projected start date). For purposes of Longevity Reinsurance, net premium shall be used in the projection and defined as the gross premium multiplied by a “K-factor,” where the K-factor is determined as:
   1. The present value of the expected future benefits and expenses at contract inception using the prudent estimate assumptions determined at contract inception and an interest rate equal to the prescribed interest rate under VM-A and VM-C, divided by item ii immediately below.
   2. The present value of the expected future gross premiums at contract inception using the prudent estimate assumptions determined at contract inception and an interest rate equal to the prescribed interest rate under VM-A and VM-C.
   3. The resulting amount is capped at 1, in other words the application of the K-factor shall not result in the net premium exceeding the gross premium.

**Guidance Note**: If due premiums are modeled, the final reported reserve needs to be adjusted by adding the due premium asset.

1. Other revenues, including contractual fees and charges, and revenue-sharing income received by the company (net of applicable expenses). For purposes of Longevity Reinsurance, it is not expected that any such other revenues will apply. To the extent there are other revenues, they should be included with item ii under a. immediately above so that the calculation of the K-factor includes all expected future revenues from the contract holder.
2. All material benefits projected to be paid to contract holders—including, but not limited to, death claims, surrender benefits and withdrawal benefits—reflecting the impact of all guarantees and adjusted to take into account amounts projected to be charged to account values on general account business. Any guarantees, in addition to market value adjustments assessed on projected withdrawals or surrenders, shall be taken into account.
3. Non-Guaranteed Elements (NGE) cash flows as described in Section 10.I.
4. Insurance company expenses (including overhead and maintenance expense), commissions and other acquisition expenses associated with business inforce as of the valuation date.
5. Cash flows associated with any reinsurance, to the extent not already covered above (for example, for longevity reinsurance)..
6. Cash flows from hedging instruments as described in Section 4.A.4.
7. Cash receipts or disbursements associated with invested assets (other than policy loans) as described in Section 4.D.4, including investment income, realized capital gains and losses, principal repayments, asset default costs, investment expenses, asset prepayments, and asset sales.

If modeled explicitly, cash flows related to policy loans as described in Section 10.I.2, including interest income, new loan payments and principal repayments.