**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.**

American Academy of Actuaries’ Life Reserves Work Group.

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, 2020, edition of the Valuation Manual with NAIC adoptions through August 6, 2019

Locations with proposed changes : VM-20 and VM-31

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 attached.

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

The Valuation Manual already requires that if there is additional risk arising from the conversion of term life insurance, whether group or individual, it must be reserved for. The purpose of this APF is to emphasize this requirement and to provide guidance on what must be included in the Life PBR Actuarial Report with respect to conversions.

\* This form is not intended for minor corrections, such as formatting, grammar, cross–references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

NAIC Staff Comments:

|  |  |  |  |
| --- | --- | --- | --- |
| **Dates:** Received | Reviewed by Staff | Distributed | Considered |
| 11/12/19 |  |  |  |
| **Notes:** VM APF 2019-62 rev.02-10-20; 14-day re-exposure through 2/26/20 | | | |

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**VM-20 Section 9.C.4 - Add Section 9.C.4.d**

1. c. The mortality rates from the resulting anticipated experience assumptions must be no lower than the mortality rates that are actually expected to emerge and that the company can justify.

d. In satisfying Section 9.C.4.c, the company must ensure that any excess mortality is appropriately reflected in the anticipated experience mortality rates. This includes but is not limited to excess mortality associated with policies issued via conversion from term policies or from group life contracts.

Exposure of the proposed section 9.C.4.c includes the following changes which have been reviewed and accepted by the Task Force:

VM-31 Section 3.B.3 [Executive Summary – policy overview]

* 1. Policies – A summary of the base policies within each VM-20 reserving category. Include information necessary to fully describe the company’s distribution of business. For direct business, use PBR Actuarial Report Template A located on the NAIC website (<https://www.naic.org/pbr_data.htm?tab_3>) to provide descriptions of each base policy product type and underwriting process (including a description of the process, the time period in which it was used, and the level of any additional margin), with a breakdown of policy count and face amount by base policy product type and underwriting process. Also include the target market, primary distribution system, and key product features that affect risk, including conversion privileges.

VM-31 Section 3.D.1.d [Life Report – Assumptions and Margins]

1. Assumption and Margin Development – The following information for each risk factor: description of the methods used to determine anticipated experience assumptions and margins, including the sources of experience (e.g., company experience, industry experience, or other data); how changes in such experienceare monitored; any adjustments made to increase mortality margins above the prescribed margin (such as to reflect increased uncertainty due to newer underwriting approaches; and any other considerations, such as conversion features, helpful in or necessary to understanding the rationale behind the development of assumptions and margins, even if such considerations are not explicitly mentioned in the Valuation Manual.

VM-31 Section 3.D.3.j(new section) [Life Report – Mortality]

(We suggest placing after Adjustments for Mortality Improvement and before Mortality for Impaired Lives)

1. Mortality for Converted Policies – Description of the treatment of mortality for Mortality policies issued under group or term conversion privileges including:
   * 1. A description of the method(s) by which any excess conversion mortality was taken into account in the development of company experience mortality rates (e.g., through the use of separate mortality segments for policies issued upon conversion, through aggregation of claim experience, or through use of other methods), the rationale for the method(s) used, and any changes in the method(s) from those used in previous years.
     2. The source(s) of the data used in the method(s) employed.

k. Mortality for Impaired Lives or Policyholder Behavior – Disclosure of:

i. the percentage of business that is on impaired lives;

ii. whether impaired lives were included or excluded from the mortality study upon which company experience mortality was based; and

iii. whether any adjustments to mortality assumptions for impaired lives or policyholder behavior were found to be necessary and, if so, the rationale for the adjustments that were used.

Item (iii) above is a required disclosure for post-level term mortality assumptions even if the company uses a 100% shock lapse assumption, since it pertains to the analysis demonstrating whether there are post-level term profits.

VM-31 Section 3.D.4.l and m (new sections) [Life Report – Policyholder Behavior]

k. Post-Level Term Testing – For products with a level term period:

i. Summary results of the seriatim comparison of the present value of postlevel term cash inflows and outflows for the DR as required by VM-20 Section 9.D.6.

ii. If this comparison showed that there were post-level term profits, describe how anti-selection was handled in the post-level term period, including the prudent estimate premium, mortality and lapse assumptions used.

iii. If the comparison showed that there were post-level term losses, confirm that the prudent estimate premium, mortality and lapse assumptions for the post-level period were addressed in Section 3.D.1.a and were used in the reserve calculation.

1. Term Conversions – Description of how the company reflects the impact of any term conversion privilege contained in the policy.
2. Lapse Rates for Converted Policies – Description of and rationale for lapse rates used for policies issued under any group or term conversion privilege.

VM-31 Section 3.D.8.a [Life Report – Reinsurance]

* + 1. Agreements – For those reinsurance agreements included in the calculation of the minimum reserve as per VM-20 Section 8.A, a description of each reinsurance agreement, including, but not limited to, the type of agreement, the counterparty, the risks reinsured, any provisions related to converted policies, the portion of business reinsured, identification of both affiliated and non-affiliated, as well as captive and non-captive, or similar relationships, and whether the agreement complies with the requirements of the credit for reinsurance under the terms of the AP&P Manual.