Exposure of APF 2020-03

Commenters are asked to consider whether having the revised language proposed for VM-20 Section 3.B.3.a might necessitate an additional requirement (possibly 3.B.3.c) to cover calculations utilizing an unearned premium reserve approach.

Please send comments to RMazyck@naic.org by close of business on March 19, 2020.

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| --- | --- | --- | --- |
| **Dates:** Received | Reviewed by Staff | Distributed | Considered |
| 2/18/20 | RM |  |  |
| **Notes:** APF 2020-03 revised 2/26/20 Exposed 2/27/20 |

**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:**

Rachel Hemphill, Texas Department of Insurance

 **Title of the Issue:**

Clarify NPR calculation requirements.

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-20 Section 3.B.1 – 3.B.3, and VM-20 Section 3.B.6.d.i

January 1, 2020 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 attached.

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

Clarify any confusion on whether more direct calculations of the NPR to reflect non-annual premium modes, etc., are allowed. The current guidance note in Section 3.B.3 states that these may be reflected **either** “directly or through adjusting accounting entries”. However, due to some confusion on this point, I suggest emphasizing that more direct calculation methods are not prohibited.

Since the guidance note at the end of Section 3.B.3 contains requirements and not just guidance, it should be taken out of a guidance note. This requires moving the four terms to Section 3.B.1 and updating two cross references in VM-20 Section 3.B.6.d.i.

\* 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:

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**VM-20 Section 3.B.1 – 3.B.3**

B. NPR Calculation

1. For the purposes of Section 3, the following terms apply:
	1. A policy with “multiple secondary guarantees” is one that: a) simultaneously has more than one shadow account; b) simultaneously has more than one cumulative premium type of guarantee; or c) simultaneously has at least one of each. A single shadow account with a variety of possible end dates to the secondary guarantee, depending on the policyholder’s choice of funding level, constitutes a single—not multiple—secondary guarantee.

**Guidance Note:**

Policy designs that are created simply to disguise guarantees or exploit a perceived loophole must be treated in a manner similar to more typical product designs with similar guarantees. If a policy contains multiple secondary guarantees, such that a subset of those secondary guarantees in combination represent an implicit guarantee that would produce a higher NPR if that implicit guarantee were treated as an explicit secondary guarantee of the policy, then the policy should be treated as if that implicit guarantee were an explicit guarantee. For example, if there were a policy with a “sequential secondary guarantee” where only one secondary guarantee applied at any given point in time but with a series of secondary guarantees strung together with one period ending when the next one began, the combined terms of the secondary guarantees would be regarded as a single secondary guarantee.

* 1. The “fully funded secondary guarantee” at any time is:
1. For a shadow account secondary guarantee, the minimum shadow account fund value necessary to fully fund the secondary guarantee for the policy at that time. For any policy for which the secondary guarantee contractually cannot be fully funded in advance, this shall be the present value of the contractually permitted premium stream that would fully fund the guarantee at the earliest possible date (using the valuation interest rate and mortality standard specified in Section 3.C).
2. For a cumulative premium secondary guarantee, the amount of cumulative premiums required to have been paid to that time that would result in no future premium requirements to fully fund the guarantee, accumulated with any interest or accumulation factors per the contract provisions for the secondary guarantee. For any policy for which the secondary guarantee contractually cannot be fully funded in advance, this shall be the present value of the contractually permitted premium stream that would fully fund the guarantee at the earliest possible date (using the valuation interest rate and mortality standard specified in Section 3.C).
	1. The “actual secondary guarantee” at any time is:
3. For a shadow account secondary guarantee, the actual shadow account fund value at that time.
4. For a cumulative premium secondary guarantee, the actual premiums paid to that point in time, accumulated with any interest or accumulation factors per the contract provisions for the secondary guarantee.
	1. The “level secondary guarantee” at any time is:
5. For a shadow account secondary guarantee, the shadow account fund value that would have existed at that time assuming payment of the level gross premium determined according to Section 3.B.6.c.i.
6. For a cumulative premium secondary guarantee, the amount of cumulative level gross premiums determined according to Section 3.B.6.c.i, accumulated with any interest or accumulation factors per the contract provisions for the secondary guarantee.
7. provide the calculation ofIn Section 3.B.4, Section 3.B.5 and Section 3.B.6, tis
8. must,:
	1. Directly within the calculations in Section 3.B.4, Section 3.B.5 and Section 3.B.6.
	2. Through adjusting accounting entries (such as due and deferred premium asset).

**VM-20 Section 3.B.6.d.i**

As of the valuation date for the policy being valued, determine the actual secondary guarantee, denoted ASGx+t, as outlined in Section 3.B.1.c and the fully funded secondary guarantee, denoted FFSGx+t, as outlined in Section 3.B.1.b.