**Life Actuarial (A) Task Force**

**Amendment Proposal Form 2020-10**

**Exposed for a 45-day public comment period ending May 25, 2021**

**Request for Comment:** During the exposure, commenters are specifically asked to address whether the “may” in 9.C.7.f, as well as 9.C.3.g, should be changed to “shall”. That is, rather than the SOA rates for historical and future mortality improvement being optional, they are required. However, if historical or future mortality improvement were overall positive and so not applying it would be conservative, then that would still be permissible as a simplification, since VM-20 Section 2.G would still apply here. Thus, the difference between “may” and “shall” would arise if historical or future mortality improvement were ever overall negative and so not applying it would be less conservative and so not permissible.

Please submit comments to Reggie Mazyck ([RMazyck@naic.org](mailto:RMazyck@naic.org)) by COB 5/25/21.

**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.

Pat Allison – NAIC, Scott O’Neal – NAIC, Mary Bahna-Nolan – Pacific Life, and Rachel Hemphill – Texas Department of Insurance; SOA for development of rates and loading.

Reflect a prudent level of mortality improvement beyond the valuation date.

1. Identify the document, including the date if the document is “released for comment,” and the location in the document where the amendment is proposed:

Valuation Manual (January 1, 2021 edition), VM-20 Section 6.A.2.b.v, VM-20 Section 8.C Introductory Paragraph, VM-20 Section 8.C.18 and Guidance Note, VM-20 Section 9.C.2.h, VM-20 Section 9.C.3.g, VM-20 Section 9.C.7.h (new), VM-31 Section 3.D.3.i, VM-31 Section 3.D.11.c.i

1. 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 Appendix.

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

The current Valuation Manual requirements are beyond moderately adverse with regard to future mortality improvement when significant future mortality improvement is expected. The requirements also need to be clarified for the handling of historical or anticipated future mortality deterioration (i.e., negative improvement). We propose to reflect a prudent level of mortality improvement beyond the valuation date, using SOA analysis for best estimate future mortality improvement and margin.

With the reflection of a prudent level of future mortality improvement in the mortality assumption, the interim 1/2cx approach to YRT is a reasonable consideration for a long-term approach.

#### Appendix

##### VM-20 Section 6.A.2.b.v:

1. Mortality improvement beyond the projection start date, other than that outlined in VM-20 Section 9.C.7.f, may not be reflected in the mortality assumption for the purpose of calculating the stochastic exclusion ratio.

##### VM-20 Section 8.C, introductory paragraph:

C. Reflection of Reinsurance Cash Flows in the Deterministic Reserve or Stochastic Reserve

For non-guaranteed YRT reinsurance ceded or assumed, the cash-flow modeling requirements in Sections 8.C.1 through 8.C.14 below do not apply since non-guaranteed YRT reinsurance ceded or assumed does not need to be modeled; see Section 8.C.18 below. YRT shall include other reinsurance arrangements that are similar in effect to YRT.

##### VM-20 Section 8.C.18 and Guidance Note:

18.

When the reinsurance ceded or assumed is on a non-guaranteed YRT or similar basis, the corresponding reinsurance cash flows do not need to be modeled. Rather, for a ceding company, the post-reinsurance-ceded DR or SR shall be the pre-reinsurance-ceded DR or SR pursuant to Section 8.D.2, plus any applicable provision pursuant to Section 8.C.15 and Section 8.C.17, minus the NPR reinsurance credit from Section 8.B. For an assuming company, the DR or SR for the business assumed on a non-guaranteed YRT or similar basis shall be set equal to the NPR from Section 3.B.8, plus any applicable provision pursuant to Section 8.C.16 and Section 8.C.17. In the case where there are also other reinsurance arrangements that are not on a non-guaranteed YRT or similar basis, the reinsurance credit shall include the modeled reinsurance credit reflecting those other reinsurance arrangements. In particular, where there are also other reinsurance arrangements that are dependent on the non-guaranteed YRT or similar actuarial judgment shall be used to project cash flows consistent with the above outlined treatment for non-guaranteed YRT or similar arrangements.

##### VM-20 Section 9.C.2.h:

h. Mortality improvement shall not be incorporated beyond the valuation date in the company experience mortality rates. However, historical mortality improvement from the central point of the underlying company experience data to the valuation date may be incorporated.

**Guidance Note:** Future mortality improvement is not applied to the company experience mortality rates, since it would be duplicative of the future mortality improvement that is applied to the prudent estimate assumptions for mortality in Section 9.C.7.f.

##### VM-20 Section 9.C.3.g:

g. Mortality improvement shall not be incorporated beyond the valuation date in the industry basic table. However, historical mortality improvement from the date of the industry basic table (e.g., Jan. 1, 2008, for the 2008 VBT and July 1, 2015, for the 2015 VBT) to the valuation date may be incorporated using the improvement factors for the applicable industry basic table as determined by the SOA, adopted by LATF, and published on the SOA website, <https://www.soa.org/research/topics/indiv-val-exp-study-list/> (Mortality Improvement Rates for AG-38 for Year-End YYYY).

**Guidance Note:** Future mortality improvement is not applied to the industry basic table, since it would be duplicative of the future mortality improvement that is applied to the prudent estimate assumptions for mortality in Section 9.C.7.f.

To allow time for companies to reflect the updated mortality improvement rates, the rates that are to be used in the year-end YYYY valuation should be adopted by LATF and published on the SOA website by September of YYYY. If this timeline is not met, then at the company’s option they may use the most recent set of prior mortality improvement rates adopted by LATF and published on the SOA website.

##### VM-20 Section 9.C.7.f (new section):

The prudent estimate assumptions for mortality may be adjusted to reflect up to 20 years of future mortality improvement that the company expects beyond the valuation date, using prudent future mortality improvement factors no greater than the loaded factors determined by the SOA, adopted by LATF, and published on the SOA website, at [link/reference to SOA site TBD].

**Guidance Note:** Mortality improvement may be positive or negative (i.e., deterioration).

To allow time for companies to reflect the updated mortality improvement rates, the rates that are to be used in the year-end YYYY valuation should be adopted by LATF and published on the SOA website by September of YYYY. If this timeline is not met, then at the company’s option they may use the mortality improvement rates for the prior year (year YYYY-1).

##### VM-31 Section 3.D.3.i:

1. Adjustments for Mortality Improvement – Description of and rationale for any adjustments to the mortality assumptions for mortality improvement up to and beyond the valuation date. Such a description shall include the assumed start and end dates of the improvements and a table of the annual improvement percentage(s) used, both without and with margin, separately for company experience and the industry basic table(s), along with a sample calculation of the adjustment (e.g., for a male preferred nonsmoker age 45).

##### VM-31 Section 3.D.11.c.i:

1. If the company believes the method used to determine anticipated experience mortality assumptions includes an implicit margin, the company can adjust the anticipated experience assumptions to remove this implicit margin for this reporting purpose only. If any such adjustment is made, the company shall document the rationale and method used to determine the anticipated experience assumption.