**Life Actuarial (A) Task Force**

**COVER LETTER – APF 2023-06**

**Updated 5/11/2023**

5/11/2023: The exposure for this APF is being extended through 6/12/23. In addition to overall comments on the APF, commenters are asked to address the following detailed questions:

Regarding Item #1, on the NPR Expense Allowance (EA):

1. Should the inconsistency in formulas 1) for calculating the NPR for ULSG based on the value of the secondary guarantee in VM-20 Section 3.B.5.c.ii.4, which excludes the EA from the scaling of the NPR, and 2) for calculating the NPR for ULSG disregarding the secondary guarantee in VM-20 Section 3.B.5.d.iv, which includes the EA when scaling the NPR, continue?
   1. If yes, why is it appropriate for these formulas to not be consistent?
   2. If no, what specific edits do you recommend?
2. Related to #1, should the scaling in the NPR be consistent with Model 585, Universal Life Model Regulation, where the r-ratio is applied to the expense allowance? For the UL CRVM approach, Section 8.3 of Lombardi’s *Valuation of Life Insurance Liabilities* summarizes “In essence, the model regulation assumes that at issue, all universal life policies are permanent plans. The r-ratio is meant to measure the extent to which the policy is “on track” as a permanent plan”. This r-ratio is then applied, notably in separate steps, to both the net level reserve and the expense allowance.
   1. If no, why is it appropriate for these formulas to not be consistent?
   2. If yes, what specific edits do you recommend?
3. Beyond the scaling for the funding ratio, the EA currently depends on policyholder behavior, as the amortization is based on the period for premium payments, separately determined for the secondary guarantee and for the primary guarantee calculations. It also depends on the VNPR. If you believe that the EA should not be scaled by the funding ratio, address why you believe this to be different than the other aspects of the formula that have historically and continue to impact the EA.
4. Related to further potential changes to the NPR, do you believe that there is an inconsistency in the current definitions of the fully funded secondary guarantee for shadow account and cumulative premium type guarantees?
   1. If no, why not?
   2. If yes, what specific edits do you recommend?
5. Related to further potential changes to the NPR, do you believe that there are secondary guarantee types that should be considered “non-material” that are not currently in scope of the Valuation Manual’s definition of non-material secondary guarantees?
   1. If no, why not?
   2. If yes, what specific edits do you recommend?
6. Finally, analysis of impacts of this change are welcome and appreciated. However, to be informative for the discussion any such analysis should separately report the NPR components, the primary guarantee NPR, the secondary guarantee NPR, and the NPR floors. Also, inclusion of projected levels over the life of a block would be appreciated.

Regarding Item #2, on the CSV floor:

1. Analysis of impacts of this change are welcome and appreciated. However, to be informative for the discussion any such analysis should separately report the NPR, DR, and SR and the final reserve impact. That is, SR impacts in isolation are not informative for the final reserve impact. Also, inclusion of projected impacts over the life of a block would be appreciated. Finally, separate results by product type would be particularly informative.

**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:**

PBR Staff of Texas Department of Insurance

**Title of the Issue:**

Address several clean-up items for VM-20

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.5.c.ii.4 and VM-20 Section 5.B.3

January 1, 2023 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.)

1. The formula for calculating the NPR for ULSG based on the value of the SG in VM-20 Section 3.B.5.c.ii.4 excludes the EA from the scaling of the NPR. This is inconsistent with the formula for calculating the NPR for ULSG disregarding the SG in VM-20 Section 3.B.5.d.iv. The scale is the prefunding ratio of actual SG (denoted ASG) to fully funded SG (denoted FFSG), and it makes intuitive sense that the NPR would be scaled to decrease or increase relative to the level of funding of the SG.
2. The VM-20 Section 5.B.3 stochastic reserve methodology is missing an aggregate cash surrender value (CSV) floor for scenario reserves before calculating CTE70. This allows scenario reserves that exceed the CSV to be dampened or eliminated by being averaged with scenario reserves. A CSV floor in the NPR does not address this concern, because it does not reflect the scenario reserves in the SR that exceed the CSV. In contrast, in VM-21 Section 4.B.1 scenario reserves are floored at the aggregate CSV as appropriate. Scenario reserves, as the asset requirement for specific scenarios, should be held at or above the CSV.

\* 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 |
| 1/30/23 | SO |  |  |
| **Notes:** APF 2023-06 – taken from Sections 1 and 2 of APF 2023-03. | | | |

**VM-20 Section 3.B.5.c.ii.4**

1. The NPR for an insured age x at issue at time t shall be according to the formula below:

~~𝑀𝑖𝑛 [ 𝐴𝑆𝐺~~~~𝑥+𝑡~~ ~~/𝐹𝐹𝑆𝐺~~~~𝑥+𝑡~~ ~~, 1] ⦁ 𝑁𝑆𝑃~~~~𝑥+𝑡~~ ~~− 𝐸~~~~𝑥+t~~

𝑀𝑖𝑛 [ 𝐴𝑆𝐺𝑥+𝑡 /𝐹𝐹𝑆𝐺𝑥+𝑡 , 1] ⦁ (𝑁𝑆𝑃𝑥+𝑡 − 𝐸𝑥+t)

**VM-20 Section 5.B.3**

1. Set the scenario reserve equal to the sum of the statement value of the starting assets across all model segments and the maximum of the amounts calculated in Subparagraph 2 above.

The scenario reserve for any given scenario shall not be less than the cash surrender value in aggregate on the valuation date for the group of contracts modeled in the projection.