**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

Mary Bahna-Nolan, Pacific Life

**Title of the Issue:**

VM-20 restriction on using different credibility methods for significantly different blocks of business

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 Sections 9.C.5.a and 9.C.7.b.ii

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.)

Currently, a company must select a single credibility methodology, Limited Fluctuation or Bühlmann, for all business that company has that is subject to VM-20 and requires credibility percentages. The Bühlmann methodology is technically allowed for Simplified Issue business within the Valuation Manual; however, at present, it is not practically possible since there are no industry factors available for Simplified Issue. Therefore, only the Limited Fluctuation method can currently be used for determining credibility for Simplified Issue business. The factors in VM-20 for the Bühlmann were developed to only be used in conjunction with the 2015 VBT. Thus, currently, a company with any Simplified Issue business subject to VM-20 that requires credibility calculations must use the Limited Fluctuation method for all of their business subject to VM-20 that requires credibility calculations, including the fully underwritten business. We do not see this as a reasonable restriction. VM-20 already requires that companies not change their credibility method once selected unless they receive commissioner approval for the change, and we believe that that constraint is sufficient to avoid any significant gaming of the credibility method selection.

\* 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 |
| 11/6/19 |  |  |  |
| **Notes:** APF 2019-60 | | | |

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**VM-20 Section 9.C.5.a**

5. Credibility of Company Experience

1. For valuations in which the industry basic mortality table is the 2008 VBT, determine an aggregate level of credibility over the entire exposure period using a methodology to determine the level of credibility that follows common actuarial practice as published in actuarial literature (for example, but not limited to, the Limited Fluctuation Method or Bühlmann Empirical Bayesian Method).

For valuations in which the industry basic mortality table is the 2015 VBT, determine an aggregate level of credibility following either the Limited Fluctuation Method by amount, such that the minimum probability is at least 95% with an error margin of no more than 5% or Bühlmann Empirical Bayesian Method by amount.

Not all blocks of a company’s business subject to VM-20 necessarily need to use the same credibility method. However, a company seeking to change the credibility method for a given block of business must request and subsequently receive the approval of the insurance commissioner. The request must include the justification for the change and a demonstration of the rationale supporting the change.

**VM-20 Section 9.C.7.b.ii**

7. Process to Determine Prudent Estimate Assumptions

a. If applicable industry basic tables are used in lieu of company experience as the anticipated experience assumptions, or if the level of credibility of the data as provided in Section 9.C.5 is less than 20%, the prudent estimate assumptions for each mortality segment shall equal the respective mortality rates in the applicable industry basic tables as provided in Section 9.C.3, including any applicable improvement pursuant to Section 9.C.3.g, plus the prescribed margin as provided in Section 9.C.6.c, plus any applicable additional margin pursuant to Section 9.C.6.d.v and/or Section 9.C.6.d.vi.

b. If the company uses company experience mortality rates as the anticipated experience assumptions, the following process shall be used to develop prudent estimate assumptions:

i. Determine the values of A, B and C from the Grading Table below, based on the level of credibility of the data as provided in Section 9.C.5.

**Grading Table**

|  |  |  |  |
| --- | --- | --- | --- |
| Credibility of company data (as defined in Section 9.C.5 above) rounded to nearest % | A | B | C |
| 20% - 30% | 10 | 2 | 8 |
| 31%–32% | 11 | 3 | 8 |
| 33%–34% | 12 | 3 | 8 |
| 35%–36% | 13 | 3 | 9 |
| 37%–38% | 14 | 3 | 9 |
| 39%–40% | 15 | 3 | 10 |
| 41%–42% | 16 | 3 | 10 |
| 43%–44% | 17 | 3 | 10 |
| 45%–46% | 18 | 3 | 11 |
| 47%–48% | 19 | 3 | 11 |
| 49% | 20 | 3 | 11 |
| 50% | 20 | 4 | 12 |
| 51% | 21 | 4 | 12 |
| 52%–53% | 22 | 4 | 12 |
| 54% | 23 | 4 | 13 |
| 55% | 24 | 4 | 13 |
| 56% | 25 | 4 | 13 |
| 57% | 25 | 5 | 13 |
| 58% | 26 | 5 | 14 |
| 59% | 27 | 5 | 14 |
| 60%–61% | 28 | 5 | 14 |
| 62% | 29 | 5 | 15 |
| 63% | 30 | 6 | 15 |
| 64%–65% | 31 | 6 | 15 |
| 66% | 32 | 6 | 16 |
| 67% | 33 | 6 | 16 |
| 68%–69% | 34 | 6 | 16 |
| 70% | 35 | 7 | 17 |
| 71% | 36 | 7 | 17 |
| 72% | 37 | 7 | 17 |
| 73% | 38 | 7 | 18 |
| 74% | 39 | 7 | 18 |
| 75% | 40 | 7 | 18 |
| 76% | 41 | 7 | 19 |
| 77% | 42 | 8 | 19 |
| 78% | 43 | 8 | 19 |
| 79% | 44 | 8 | 20 |
| 80% | 45 | 8 | 20 |
| 81% | 46 | 8 | 20 |
| 82% | 47 | 8 | 21 |
| 83% | 48 | 9 | 21 |
| 84% | 49 | 9 | 21 |
| 85%–87% | 50 | 9 | 22 |
| 88%–89% | 50 | 9 | 23 |
| 90% | 50 | 10 | 23 |
| 91%–93% | 50 | 10 | 24 |
| 94%–100% | 50 | 10 | 25 |

ii. Determine the value of D, which represents the last policy duration that has a substantial volume of claims, using the chosen data source(s) as specified in Section 9.C.2.b. D is defined as the last policy duration at which there are 50 or more claims (not the first policy duration in which there are fewer than 50 claims), not counting riders. This may be determined at either the mortality segment level or at a more aggregate level if the mortality for the individual mortality segments was determined using an aggregate level of mortality experience pursuant to Section 9.C.2.d.

**Guidance Note:** The same level of aggregation is used in Section 9.C.2.d for determining company experience mortality rates, Section 9.C.5.b for determining credibility, and Section 9.C.7.b.ii for determining the value of D. Thus, when determining the value of D, all claims being aggregated will have used the same credibility method in Section 9.C.5.