Amendments for the 2021 Valuation Manual
for the Consideration of
the Life Insurance and Annuities (A) Committee
July 10, 2020

Attachment Number	Page Number	LATF VM Amendment	Valuation Manual Reference	Valuation Manual Amendment Proposal Descriptions	LATF Adoption Date
1	1	2019-58	Section A.1	Clarify that prescribed templates are subject to the VM governance requirements for substantive changes	5/21/20
2	3	2019-60	VM-20 Section 9.C.5.a, 9.C.7.b.ii	VM-20 restriction on using different credibility methods for significantly different blocks of business	2/6/20
3	7	2019-61	Section II, Subsection 1.D.3	The Life PBR Exemption restriction is intended to apply to ULSG with material secondary guarantees regardless of whether the secondary guarantee is an embedded guarantee or is a separate rider.	2/6/20
4	9	2019-62	VM-20 Sec 9.C.4 and VM-31 Sec 3.B.3, Sec 3.D.1.d, Sec 3.D.3, Sec 3.D.4 and Sec 3.D.8.a	Reserving for additional risk arising from term conversions	2/27/20
5	13	2020-05	VM-20 3.C.4	Clarify that the NPR assumes continuous deaths and immediate payment of claims, and does not apply to surrenders	6/11/20
6	14	2020-06	VM-20 Section 9.F.8.d., VM-31 Section 3.D.6	Guidance for replacement of LIBOR in swap spread determination	6/25/20
7	18	2020-07	VM-02 Section 3.A	Remove 4% Floor from Life Standard Nonforfeiture Rate	6/25/20

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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.

Staff of Office of Principle-Based Reserving, California Department of Insurance – Address the topic of prescribed templates.

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:

Valuation Manual (January 1, 2020 edition), Introduction, Section I, A.1

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 Appendix.

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

See attached Appendix.

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NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
APF 2019-58 (CA APF DN)			

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Appendix

ISSUE:

Now that the concept of a prescribed template has been introduced into VM-31, it should be made clear what the rules are surrounding making changes to such templates.

SECTIONS:

Introduction, Section I, Process for Updating the *Valuation Manual*, Section A.1

REDLINE:

1. Substantive Items

Substantive changes to the *Valuation Manual* are proposed amendments to the *Valuation Manual* that would change or alter the meaning, application or interpretation of a provision. All changes to the *Valuation Manual* (or to templates prescribed for use by the *Valuation Manual*) will be considered substantive, unless specifically identified as either a nonsubstantive item or an update to a table by simple majority vote of the Life Actuarial (A) Task Force/Health Actuarial (B) Task Force. Any item placed on the Active List as substantive will be exposed by the Life Actuarial (A) Task Force/Health Actuarial (B) Task Force for a public comment period commensurate with the length of the draft and the complexities of the issue, but for no less than 21 days. The comment period will be deemed to have begun when the draft has been placed on the appropriate public NAIC web page. The Life Actuarial (A) Task Force/Health Actuarial (B) Task Force will hold at least one open meeting (in person or via conference call) to consider comments before holding a final vote on any substantive items. Subsequent exposures of substantive items will be for a minimum of seven days. Meeting notices for Life Actuarial (A) Task Force/Health Actuarial (B) Task Force meetings will indicate if a vote is anticipated on any substantive items. Adoption of all changes at the Life Actuarial (A) Task Force/Health Actuarial (B) Task Force will be by simple majority.

REASONING:

Help assure readers that there no back doors through which to create new requirements.

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			

VM-20 Section 9.C.5.a

5. Credibility of Company Experience

a. 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. ~~Once chosen, the credibility method must be applied to all business subject to VM20 and requiring credibility percentages.~~

Not all blocks of a company's business subject to VM-20 necessarily need to use the same credibility method. However, a~~A~~ company seeking to change the credibility method~~s~~ 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.

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:
   The Life PBR Exemption restriction is intended to apply to ULSG with material secondary guarantees regardless of whether the secondary guarantee is an embedded guarantee or is a separate rider.

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 Section II, Subsection 1.D.3

   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.)

   ULSG policies with material secondary guarantees are intended to be excluded from the Life PBR Exemption, regardless of whether the secondary guarantee is embedded in the base policy or is a separate rider. The VM does say that non-ULSG base policies with secondary guarantee riders follow the reserving requirements for ULSG policies in Section II, Subsection 6.C: "ULSG and other secondary guarantee riders shall be valued with the base policy and follow the reserve requirements for ULSG policies under VM-20, VM-A and/or VM-C, as applicable." It should be made clear that following the reserve requirements for ULSG includes exclusion from the Life PBR Exemption, when the secondary guarantee is material.

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NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
11/6/19			
Notes: APF 2019-61			

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VM Section II, Subsection 1.D.3

3. Policies Excluded from the Life PBR Exemption:
a. Universal life with secondary guarantee (ULSG) policies with a secondary guarantee, or policies – other than ULSG – that contain a rider with a secondary guarantee, in which the secondary guarantee ~~that~~ does not meet the VM-01~~, Definitions for Terms in Requirements,~~ definition of a "non-material secondary guarantee."

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.

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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; Adopted 2/27/20			

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

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]

3. 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]

d. 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 ~~with~~ 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.

Commented [A1]: The conversion features have been moved away from the margins sentence because conversions should inform anticipated experience and the general requirement for uncertainty margins covers conversions. Not sure if we should just delete this.

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

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

j. Mortality for Converted Policies – Description of the treatment of mortality for Mortality policies issued under group or term conversion privileges including:

i. 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.

ii. The source(s) of the data used in the method(s) employed.

~~j~~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.~~x~~l and ~~y~~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.

l. Term Conversions – Description of~~be~~ how the company reflects the impact of any term conversion~~s~~ privilege contained in the policy~~when setting reserves~~.

m. Lapse R~~r~~ates 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]

a. 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.

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.

   Jason Kehrberg, Vice President, PolySystems, Inc.

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.C.4, 2020 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.)

   Current VM-20 3.C.4 (per 2020 Valuation Manual):

   4. The NPR shall reflect the immediate payment of claims.

   Proposed VM-20 3.C.4 (revised):

   4. The NPR shall reflect continuous deaths and the immediate payment of death claims, including death claims on any riders or supplemental benefits for which the NPR is being calculated.

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

   I believe the intent was that 3.C.4 apply to death claims, e.g. not to payment of positive cash surrender values upon lapse, and that on a present value basis the calculated periodic death claim payments equate to immediate claim payment on deaths assumed to occur continuously.

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NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
3/30/20	RM		
Notes: VM APF 2020-05R			

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Re-Exposure of APF 2020-06 Updated 6/11/20 v.2

This version of APF is the same as the initial version exposed after the June 11 LATF call with the exception that the following sentences

"When LIBOR is terminated or its use becomes de minimis, the LIBOR rates will be replaced with the most appropriate replacement rates for the specified purpose. The NAIC will monitor these market observable values and, in the event the then current values are discontinued or replaced, will recommend an appropriate replacement to the Life Actuarial (A) Task Force."

have been replaced by the sentence below

When the NAIC determines LIBOR is no longer effective, the NAIC shall recommend a replacement to LATF which shall be effective upon adoption by Life Actuarial (A) Task Force.

Reggie Mazyck

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.

   Brian Bayerle, ACLI – Interest Rate Swap Spread Determination

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:

   Valuation Manual Jan. 1, 2020 Edition; VM-20 Section 9.F.8.d., VM-31 Section 3.D.6.

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.)

   Interest Rate Swap Spreads are currently being calculated by the NAIC under methodology outlined in the Valuation Manual. This APF changes the methodology for calculation of the 3-month and 6-month swap spreads to use market observable values for Treasury rates and LIBOR, rather than the average of these values from JP Morgan and Bank of America.

   With the forthcoming termination of LIBOR, the requirements of the Valuation Manual will need to change. This APF provides broad guidance allowing for one or more currently unnamed rate to replace LIBOR in these calculations.

   Additionally, this APF allows the company to calculate its own current swap spreads based on market observable values. The spread requirements are currently included in VM-20, with VM-21 referencing the applicable sections. With the potential of VM-22 likely having similar references, LATF may want to consider moving these and other asset requirements to their own section.

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NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
05/4/20			
Notes: VM APF 2020-06			

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Options for LATF consideration: Per the 6/11 LATF discussion, in addition to adopting the full text of the APF, regulators wanted to consider not allowing for companies to produce their own current swap spreads. This option would be to retain "prescribed" instead of "calculated", would strike the paragraph beginning "The company may elect to product their own current swap curves…", and would remove the VM-31 Section 3.D.6.v and VM-31 Section 3.F.4.h language.

VM-20 Section 9.F.8.d

Interest rate swap spreads over Treasuries shall be ~~prescribed~~calculated by the NAIC for use throughout the cash-flow model wherever appropriate for transactions and operations including, but not limited to, purchase, sale, settlement, cash flows of derivative positions and reset of floating rate investments. A current and long-term swap spread curve shall be prescribed~~calculated~~ for year one and years four and after, respectively, with yearly grading in between. The three-month and six-month points on the swap spread curves ~~represent the corresponding London Interbank Offered Rate (LIBOR) spreads over Treasuries.~~shall be the market-observable values for these tenors. Currently, this shall be the corresponding London Interbank Offered Rate (LIBOR) spreads over Treasuries. ~~When LIBOR is terminated or its use becomes de minimis, the LIBOR rates will be replaced with the most appropriate replacement rates for the specified purpose.~~ ~~The NAIC will monitor these market-observable values and, in the event the then-current values are discontinued or replaced, will recommend an appropriate replacement to the Life Actuarial (A) Task Force.~~ When the NAIC determines LIBOR is no longer effective, the NAIC shall recommend a replacement to LATF which shall be effective upon adoption by LATF.

Commented [MR1]: The word "calculated" was proposed as a replacement for the word "prescribed" if the paragraph starting "The company may select…." was adopted. The paragraph was rejected so this language goes back to "prescribed."

Commented [MR2]: The word "calculated" was proposed as a replacement for the word "prescribed" if the paragraph starting "The company may select…." was adopted. The paragraph was rejected so this language goes back to "prescribed."

~~The company may elect to produce their own current swap spread curves based on current observable rates. The company will document the data source(s) of the observable rates and the methodology of interpolation of non-published rates in the VM-31 report.~~

Commented [MR3]: This paragraph was not accepted, which results in the proposal reverting to the word "prescribed" and the deletion of the two proposed revisions to VM-31 below.

VM-20 Appendix 2.F.1

F. Current Benchmark Swap Spreads

1. For tenors of one-year to thirty-years, e~~E~~xtract swap spread data determined as of the last business day of the month by maturity. For Bank of America data, convert the swap rate for each maturity to a swap spread by subtracting the corresponding maturity Treasury yield from the swap rate. For JP Morgan, the swap spread is provided for each maturity.

~~VM-31 Section 3.D.6.v (additional bullet):~~

~~v. Current Swap Spreads Data Source: If the company used something other than the NAIC produced current swap spreads as permitted by VM-20 Section 9.F.8.d, documentation of the data source(s) used in the determination of the swap spreads, and the methodology used to determine the non-published tenors.~~

~~VM-31 Section 3.F.4.h (additional bullet):~~

~~v. Current Swap Spreads Data Source: If the company used something other than the NAIC produced current swap spreads as permitted by VM-20 Section 9.F.8.d, documentation of the data source(s) used in the determination of the swap spreads, and the methodology used to determine the non-published tenors.~~

Commented [MR4]: See the note above.

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:
   Brian Bayerle, ACLI

   Title of the Issue:
   Remove 4% Floor from Life Standard Nonforfeiture Rate.

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 NAIC Valuation Manual – VM-02 Section 3.A

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.)

   Upon any possible tax code (IRC, S. 7702) modifications to remove the hardcoded interest rate floor starting in 1/1/2021, the life standard nonforfeiture rate is being updated to ensure the minimum funding under state requirements does not exceed the maximum funding under federal requirements for life insurance contracts issued starting in 1/1/2021.

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NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
05/19/20			
Notes: VM APF 2020-07			

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VM-02

Version 1: Remove floor

Section 3: Interest

A. The nonforfeiture interest rate for any life insurance policy issued in a particular calendar year beginning on and after the operative date of the *Valuation Manual* shall be equal to 125% of the calendar year statutory valuation interest rate defined for the NPR in the *Valuation Manual* for a life insurance policy with nonforfeiture values, whether or not such sections apply to such policy for valuation purposes, rounded to the nearer one-quarter of 1%, provided, however, that the nonforfeiture interest rate shall not be less than the applicable interest rate ~~used~~ prescribed to meet the definition of life insurance in the Cash Value Accumulation Test under Section 7702 (*Life Insurance Contract Defined*) of the U.S. Internal Revenue Code ~~4%~~.

Guidance Note: For flexible premium universal life insurance policies as defined in Section 3.D of the *Universal Life Insurance Model Regulation* (#585), this is not intended to prevent an interest rate guarantee less than the nonforfeiture interest rate.