**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:**

David E. Neve, Vice President, Regulatory and Government Affairs, Global Atlantic Financial Group

**Title of the Issue:**

VM-20 Treatment for YRT Cash Flows in Modeled Reserves

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 8.C

January 1, 2019 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.)

Developing an appropriate margin for YRT reinsurance premiums has proven to be very difficult, given the margins in mortality assumptions that are used to determine YRT reinsurance claim settlements. Several proposals have been made that define the margin for reinsurance premiums to be somewhat consistent with the mortality margin that is used to determine YRT claim settlements. In effect, these proposals attempt to offset the two margins so that they largely cancel out. These proposals, while conceptually sound, are complex and difficult to implement.

This proposal accomplishes the same goal of having offsetting margins, but does so using a straightforward and simple approach. It defines the margin for both reinsurance premiums and reinsurance claim settlements to be zero, so that the prudent estimate assumptions for YTR reinsurance premiums and YRT reinsurance claims are the company’s best estimate assumptions. Reinsurance premiums are projected using the premiums rates from the reinsurance treaties along with the company’s best estimate of future rate increases and recaptures. Projected reinsurance claim settlements are based on mortality rates that exclude the VM-20 prescribed margins, exclude the grading to an industry table, and include the company’s best estimate of mortality improvement.

\* 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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| **Dates:** Received | Reviewed by Staff | Distributed | Considered |
| 4/18/19 |  |  |  |
| **Notes:** VM APF 2019-41 | | | |

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**VM-20 Section 8.C**

(The proposal below inserts a new Sec. 8.C.8 and renumbers the following sections accordingly)

7. The company shall assume that the counterparties to a reinsurance agreement are knowledgeable about the contingencies involved in the agreement and likely to exercise the terms of the agreement to their respective advantage, taking into account the context of the agreement in the entire economic relationship between the parties. In setting assumptions for the NGE in reinsurance cash flows, the company shall include, but not be limited to, the following:

a. The usual and customary practices associated with such agreements.

b. Past practices by the parties concerning the changing of terms, in an economic environment similar to that projected.

c. Any limits placed upon either party’s ability to exercise contractual options in the reinsurance agreement.

d. The ability of the direct-writing company to modify the terms of its policies in response to changes in reinsurance terms.

e. Actions that might be taken by a party if the counterparty is in financial difficulty.

1. The company shall use best estimate assumptions with no implicit or explicit margins, except margins pursuant to Section 8.C.16 through Section 8.C.18, as the prudent estimate assumptions for YRT reinsurance premiums and YRT reinsurance claim settlements, using the following procedure:
   1. Use the reinsurance rates and provisions from the relevant reinsurance agreement as the initial prudent estimate assumption for YRT reinsurance premiums, and project future reinsurance rate increases and recaptures using what the company actually expects will occur, based on treaty provisions, past reinsurance rate increase experience, and ongoing relationship with the reinsurer.
   2. The mortality rates used to determine the prudent estimate assumptions for YRT reinsurance claim settlements shall equal the company’s anticipated experience assumptions adjusted to reflect the company’s best estimate of mortality improvement.

9. The company shall account for any actions that the ceding company and, if different, the direct-writing company have taken or are likely to take that could affect the expected cash flows of the reinsured business in determining assumptions for the modeled reserve.

[Renumber following sections accordingly]