Statutory Accounting Principles (E) Working Group

**Maintenance Agenda Submission Form**

**Form A**

**Issue:** VM-22 Update Coordination

**Check (applicable entity):**

P/C Life Health

Modification of Existing SSAP

New Issue or SSAP

Interpretation

Description of Issue:

This agenda item is part of the coordination process between the *Accounting Practices and Procedures Manual* with the *Valuation Manual*. It recommends minor consistency revisions to *SSAP No. 51—Life Contracts* to reflect updates to that the Life Actuarial (A) Task Force has made to the *Valuation Manual* in VM-22 PBR: Requirements for Principle-Based Reserves for Non-Variable Annuities (VM-22). The revisions are primarily to add minor references and to be clearer on different reserving methodologies given the different approaches between different sections of the *Valuation Manual.* These edits include adding “and” “/or” in a few places and a specific reference to “variable annuities.”

Existing Authoritative Literature:

*SSAP No. 51—Life Contracts* contains high level accounting guidance on life insurance which also includes references to other model laws and the actuarial guidelines etc.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None.

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:**

None

**Convergence with International Financial Reporting Standards (IFRS):** None.

Staff Review Completed by: Robin Marcotte– NAIC Staff

Staff Recommendation:

**NAIC staff recommend that the Statutory Accounting Principles (E) Working Group move this agenda item to the active listing of the maintenance agenda, categorize as a SAP clarification, and expose revisions which add minor consistency revisions to** ***SSAP No. 51—Life Contracts* reflect updates to the *Valuation Manual* in *VM-22 PBR: Requirements for Principle-Based Reserves for Non-Variable Annuities*. The revisions are minor edits to clearly reflect new VM-22 principle-based reserve requirements between the different methods of reserving.**

## *SSAP No. 51—Life Contracts* revisions proposed for exposure to reflect new VM-22 PBR requirements.

* Paragraph 15: **Change Needed - “deterministic and/or stochastic reserve methodologies” would be clearer given the different VM-20, VM-21, and VM-22 approaches.**

### Policy Reserves

1. Statutory policy reserves shall be established for all unmatured contractual obligations of the reporting entity arising out of the provisions of the insurance contract. Where separate benefits are included in a contract, a reserve for each benefit shall be established as required in Appendix A-820. These statutory policy reserves have historically been calculated as the excess of the present value of future benefits to be paid to or on behalf of policyholders less the present value of future net premiums. For policies issued on or after the operative date of the *Valuation Manual*, these formulaic calculations will be supplemented for some policies with more advanced deterministic and/or stochastic reserve methodologies to better reflect company experience, possible economic conditions and inherent policy risks. Statutory policy reserves meet the definition of liabilities as defined in *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets*. The actuarial methodologies referred to in paragraph 16 meet the criteria required for reasonable estimates in SSAP No. 5.

* Paragraph 22: **Change Needed – distinguish between different PBR exclusion tests for different products by adding word “and” and the word “or”.**

1. For life and annuity policies issued on or after the operative date of the *Valuation Manual*, reserves shall use the requirements of the *Valuation Manual*. As required by Appendix A-820, reserves are required to be determined using the methodologies and processes described in the *Valuation Manual*. For policies unable to meet the *Valuation Manual* criteria for exemption from deterministic and/or stochastic reserves, the *Valuation Manual* supplements formulaic life insurance policy reserve methodologies with more advanced deterministic and/or stochastic reserve methodologies to produce reserves that better reflect company experience, possible economic conditions and inherent policy risks.

* Paragraph 40: **Change Needed – distinguish between different versions of CARVM now on PBR.**

1. The *Valuation Manual* is effective prospectively for policies written on or after the operative date; however, as the variable annuity CARVM methodology was already principles-based, some changes to the CARVM methodology in VM-21 (on variable annuities) and to the related AG 43 may result in retroactive application to the reserving for existing contracts. Therefore, upon the initial prospective adoption of principle-based reserving, the change in valuation basis reflected as an adjustment to surplus for most entities will be zero. After initial adoption of the *Valuation Manual*, changes in valuation basis will need to be evaluated to determine the amount of any surplus adjustments.

**Status:**

On March 24, 2025, the Statutory Accounting Principles (E) Working Group exposed revisions which add minor consistency revisions to *SSAP No. 51—Life Contracts* reflect updates to the Valuation Manual in *VM-22 PBR: Requirements for Principle-Based Reserves for Non-Variable Annuities*.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/08-11-25 Summer National Meeting/Hearing/11 - 25-09 - VM-22 Coordination.docx