



AMERICAN ACADEMY *of* ACTUARIES

March 21, 2014

Commissioner Julie Mix McPeak and Superintendent Joseph Torti III
Co-Chairs, NAIC Principle-based Reserving Implementation (EX) Task Force
National Association of Insurance Commissioners

Dear Commissioner McPeak and Superintendent Torti:

The American Academy of Actuaries¹ Principle-Based Reserve Strategy Subgroup (PBRSS) of the Life Practice Council appreciates the opportunity to comment on the exposed February 17, 2014 *Report of Rector & Associates, Inc. to the Principle-Based Reserving Implementation (EX) Task Force (Report)*.

We agree that, given the direction provided by the Task Force as described in the Report, there is a rationale for using the VM-20 framework for the Primary Asset Level definition.

Due to the short exposure period for the Report, our comments here will focus on only the aspects of the Report that relate to the use of VM-20 as a framework. We note however that there are many other aspects that go beyond the VM-20 framework as a basis for the Primary Asset definition that would benefit from more thorough review and comment. The recommendations outlined in the Report are substantive and the timeline for carrying them out is very aggressive. We therefore suggest that the Report be re-exposed for further comments after this initial exposure to allow more time to focus on the extensive comments covered in the Report, and that a less aggressive timeline be considered for implementing any final recommendations.

Our comments below focus on the three changes suggested to VM-20 for the purposes of determining the Primary Asset Level. In general, we do not believe it is in the best interests of implementing PBR to make adjustments for this purpose to the current VM-20 as these changes may or may not actually be made to VM-20 once PBR is implemented.

- **Development of factors to update the applicable industry basic mortality tables prescribed in VM-20 to bring mortality rates closer to the anticipated 2014 Mortality Table.** Consistent with Section 9.C.3.g. of VM-20, a set of improvement factors has already been developed by the SOA/Academy mortality group and published on the SOA website ([link](#)) to be applied to the 2008 VBT table to true up that table to

¹ The American Academy of Actuaries is an 18,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

year end-end 2013. This was put in place for those blocks of universal life with secondary guarantees (ULSG) business for which VM-20 Deterministic Reserve-type reserve calculations are required to be performed under Section 8D of Actuarial Guideline (AG) 38. The PBRSS believes that the application of these factors is a proxy for the updated mortality until the new table is developed, and that nothing more is needed at this time.

- **Make interim adjustments to the Interest Rate Generator to move closer to expected changes being considered.** We are not aware of any formal plans to modify the Interest Rate Generator (IRG), such as modifying the mean reversion speed or the mean reversion formula itself. You may recall that the mean reversion parameter is defined by a dynamic formula. The scenarios generated from the VM-20 approach are based on 17 different parameters. Extensive analysis was conducted to establish each of the parameters both in isolation and the combined effect of all 17 parameters. A change to any one of the IRG parameters can have unintended consequences on the resulting scenarios, as the parameters interact with each other. Since adoption, there has been no subsequent analysis of the VM-20 Economic Scenario Generator scenarios to suggest that there is a need to modify the IRG. Therefore, we do not support interim adjustments to the IRG.
- **Consider adjustments to the Net Premium Reserve.** We suggest eliminating the net premium reserve entirely for this purpose, since the purposes for including a formula-based net premium reserve floor in the Valuation Manual do not apply to the aspects of captive arrangements covered in the Report.

Please contact John Meetz, the Academy's life policy analyst (meetz@actuary.org; 202-223-8196) if you have any questions.

Sincerely,

Cande Olsen, FSA, MAAA
Chairperson
Principle-Based Reserves Strategy Subgroup
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