



May 18, 2016

Mr. Mike Boerner
Chair, Life Actuarial Task Force
National Association of Insurance Commissioners

Dear Mr. Boerner:

The American Academy of Actuaries¹ Life Reserves Work Group (LRWG) is pleased to offer our comments in response to the Minnesota Department of Commerce Amendment Proposal Form (APF) on post-level term profit assumptions. We believe the current wording in section 9.D.6 of VM-20 is complete as it stands today. As a result, the LRWG recommends that LATF make no modification to the current language.

The language in section 9.D.6 takes into account “relevance and credibility of the experience” and further emphasizes that “low or no credibility” needs to be considered in setting the post-level term profit assumptions. Section 9.D.6 also recognizes that appropriate margins should be added to reflect the credibility level of the experience. Further, Section 9.D.3.a requires that policyholder behavior assumptions should be established at the “conservative end of the plausible range of behavior” if there is an absence of relevant and fully credible data. Thus, we suggest the current wording in VM-20 adequately addresses the current state of level term plans that have premium increases where there may be little credibility to justify significant tail profits. The current wording is also flexible enough for cases in which there is credible experience to properly reflect tail gains or losses in the deterministic reserve.

The LRWG also has concerns with the rationale used to support the APF. First, the additional language is not consistent with a principle-based approach by prescribing additional conservatism for a particular assumption. Adequate mechanisms are in place throughout VM-20 for actuaries to set assumptions in an appropriate manner and for regulators to review and challenge those assumptions. Second, we have a concern with making a change to the deterministic reserve (DR) calculations to address a concern with the net premium reserve (NPR) calculation. The two calculations are quite different, and making an adjustment to one

¹ The American Academy of Actuaries is an 18,500+ member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted 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.

calculation in an attempt to address a concern with the other calculation could lead to unintended results. Lastly, the APF discusses the retroactive application of “changes to the DR methodology” and states that if the proposal results in reserves being too high or too low, retroactive changes to VM-20 can be made later with little adverse impact on the company since the reserve is so small in the first year. We have two concerns with this view. First, if the APF language is incorporated in VM-20, it may be difficult to change in the future. Second, while the size of the VM-20 reserve will be quite small in the first year and will have little impact on the total reserves of a company, product pricing analysis relies on future projections of the VM-20 reserve over the entire lifetime of the product. Thus, having overly conservative reserves parameters in the Valuation Manual on Jan. 1, 2017, will have an immediate and perhaps significant impact on pricing. If these parameters are intended to be later relaxed, premiums could be more conservative unnecessarily. The LRWG suggests the current wording in VM-20 that requires adequate margins be established when data has limited credibility results in a minimum reserve that is closer to being “right-sized” from the start than what the APF would produce.

Thank you for the opportunity to provide comments. If you have any questions or would like to further discuss these topics, please contact Amanda Darlington, life policy analyst, at darlington@actuary.org.

Sincerely,

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Chairperson
Life Reserves Work Group
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