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**Practical Considerations
For Life Insurance Policy Reserves in VM-00 and VM-20
From the American Academy of Actuaries' Valuation Law Manual Team PBR Life Scope Subgroup
and Practical Considerations Subgroup**

**Presented to the National Association of Insurance Commissioners'
Life and Health Actuarial Task Force Process and Coordination Subgroup**

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This document is a review of items LHATF may want to consider when determining the scope of VM-20 in the first Valuation Manual. No recommendations are included in this document

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This is a list of considerations presented by the Valuation Law Manual Team PBR Life Scope Subgroup and Practical Considerations Subgroup regarding the potential scope and implementation options for Life Insurance Policy Reserves as outlined in the current Working Draft of VM-00, Section II of the Valuation Manual and the Amendments 20 and 23 relating to VM-20. It is being distributed to the NAIC Life and Health Actuarial Task Force Process and Coordination Subgroup **for use in its deliberations** of Scope and the application of the VM-20 PBR components to various Life products.

The Subgroups recognized that there could be considerations in addition to those outlined below that are outside the scope of this analysis. These include tax considerations, and product availability or design.

The structure of the exclusions from VM-20 is currently found as either:

- a) Explicit exclusions in VM-00 (pre-need; credit), or
- b) Bright Line exclusion tests based on Actuarial Certifications regarding limited interest rate and tail risk and gross premium “adequacy”. (VM-20 Amendments 20/23)

VM-00 Product Exclusions:

- Are there other products that should be explicitly excluded instead of using Bright Line tests? Potential candidates:
 - Final Expense or Industrial products?
 - Par Whole Life?
 - UL with short term (5 or 10-year?) no-lapse guarantee?
 - Term or Non-Par Whole Life products that do not use X-factors and/or do not generate deficiency reserves?
- Should a reference to the VM-20 Bright Line Exclusion tests be included in VM-00?
- (Note: It is assumed that excluded policies for a particular issue year continue to be excluded for the life of the policy)

VM-20 Bright Line Exclusion Tests:

Should the same tests used within VM-20 also be used to exclude products from VM-20 requirements?

1) Stochastic Reserve Exclusion Test/Actuarial Certifications:

- What testing is required to support the Certification of tail risk?
 - Is the SET test required for exclusion from VM-20 or only when excluding stochastic reserve requirements within VM-20? Is it practical to require SET tests for small blocks or policies at the form level?
 - Would a general discussion of the nature of the product and inherent risks be suitable instead of the options listed in VM-20 (see Section 6.A.1.a of Amendment 23)?
 - How often are Certifications required?

2) **Deterministic Reserve Exclusion:**

- Which “net valuation premium” is used?
 - Valuation Manual VM-A & C (Appendix A& C) CRVM net premium; or
 - VM-20 ACLI net premium that is used to be exempt from the deterministic reserve calculation
- It would seem practical for policies that have CRVM as a minimum reserve to use a Deterministic Exclusion test based on the same net premium as the final reported reserve. If this test is not passed, then the VM-20 calculations would apply.
- What % should be the “pass indicator” for the test?
 - Since the test is a “Bright Line”, this criterion will determine which products can use the VM-20 net premium reserve as the floor in VM-20 vs. which products can use Appendix A&C as the reserve.
 - The trade off is between less work for excluded products and more appropriate minimum reserves for included products. Is it appropriate to include a margin when grouping policies for a test?
- How is the “group of policies” for the net/gross premium test defined?
 - Should this be different for the exclusion from VM-20 vs. the exclusion from the Deterministic reserve?
 - Can it apply to “similar forms” or is it form specific?
 - What distribution is used?
 - Standardized distribution of policies? or
 - Assumed distribution prior to issue (similar to Illustration Actuary testing prior to issue), or
 - Actual distribution of policies sold through the valuation date
- How often would the testing be required?
 - Use of the first two options would allow a form to be tested less frequently.

Potential Phase in Period:

As required by the proposed Standard Valuation Law (SVL), the initial effective date of the Valuation Manual will be January 1 of the first calendar year following the first July 1 when the specific requirements of the proposed SVL are adopted. This provides at least 18 months for companies to prepare for annual reporting once the proposed SVL is adopted. The exposed VM-00 included a 5-year phase in period. Consideration of a shorter period, such as two years, may allow a sufficient implementation period if VM-20 products are more limited. A phase in period also allows for company prioritization depending on company characteristics.

Domiciliary Commissioner Permitted Practices/Exceptions:

- Is there a need for expressly permitting domiciliary Commissioner discretion to allow exceptions to “bright line” test results such as:
 - Tests require the VM-20 methodology, but the implementation cost is meaningful for a “small” block (materiality threshold);
 - Tests require current CRVM, but Company desires to “early implement” VM-20;
 - Tests require current CRVM, but Commissioner determines VM-20 methodology is more appropriate;
- Is the discretion already included in the SVL sufficient?