

## **Amendment Proposal Form\*** (NAIC Research Division)

1. Identify yourself, your affiliation and a very brief description (title) of the issue.

American Academy of Actuaries' Life Reserve Work Group, David Neve, Chair  
Clarify the requirements on determining anticipated experience assumptions.

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 Requirements for Principle-based Reserves for Life Products, draft dated 6/12/09, Section 8.A.6

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.)

### **Section 8. Assumptions**

6. The company shall establish an anticipated experience assumption for each material risk factor utilizing its own experience in combination with applicable industry data and other experience data.
  - a. For risk factors (such as mortality) to which statistical credibility theory may be appropriately applied, the company shall establish anticipated experience assumptions for the risk factor by combining relevant company experience with industry experience data, tables, or other applicable data in a manner that is consistent with credibility theory and accepted actuarial practice.
  - b. For risk factors (such as premium patterns on flexible premium contracts) that do not lend themselves to the use of statistical credibility theory, and for risk factors (such as the current situation with some lapse assumptions) to which statistical credibility theory can be appropriately applied, but cannot currently be applied due to lack of industry data, the company shall establish anticipated experience assumptions in a manner that is consistent with accepted actuarial practice and that reflects any available relevant company experience, any available relevant industry experience, or any other experience data that are available and relevant. Such techniques include:
    - i. Adopting standard assumptions published by professional, industry or regulatory organizations to the extent they reflect any available relevant company experience or reasonable expectations;
    - ii. Applying factors to relevant industry experience tables or other relevant data to reflect any available relevant company experience and differences in expected experience from that underlying the base tables or data due to differences between the risk characteristics of the company experience and the risk characteristics of the experience underlying the base tables or data;
    - iii. Blending any available relevant company experience with any available relevant industry experience and/or other applicable data using weightings established in a manner that is consistent with accepted actuarial practice and that reflects the risk characteristics of the underlying policies and/or company practices.
  - c. For risk factors that have limited or no experience or other applicable data to draw upon, the assumptions shall be established using sound actuarial judgment and the most relevant data available.

4. State the reason for the proposed amendment? (You may do this through an attachment.)

To clarify the requirements on when credibility methods are to be used to determine anticipated experience assumptions, and provide examples of alternative techniques when credibility methods are not applicable.

\* 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:

| <b>Dates:</b> Received | Reviewed by Staff | Distributed | Considered |
|------------------------|-------------------|-------------|------------|
|                        |                   |             |            |
| <b>Notes:</b>          |                   |             |            |

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