

Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force Amendment Proposal Form*

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

Linda Lankowski, Member, American Academy of Actuaries Role of the Actuary Subgroup. Changes to VM-31 to clarify the preparation of the PBR Actuarial Report under certain circumstances, such as when more than one qualified actuary has been assigned responsibilities under VM-G.

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:

Section VM-31 of the Valuation Manual, draft dated February 25, 2016.

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.)

See attachment.

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

Section 12.B.1 of the Standard Valuation Law requires companies to establish procedures for corporate governance and oversight of the actuarial valuation function consistent with those described in the Valuation Manual. Amendments to Section VM-G of the Valuation Manual require that the company assign certain responsibilities to one or more qualified actuaries with respect to the principle-based approach to the calculation of reserves, including the responsibility for overseeing the calculation process and the responsibility for reviewing and approving assumptions, methods, and models that are used in determining principle-based reserves, and the responsibility for preparing the PBR Actuarial Report described in Section VM-31 of the Valuation Manual.

The changes proposed in this APF to Section VM-31 are needed to clarify how the last-mentioned responsibility (to prepare the PBR Actuarial Report) is carried out, particularly in situations where more than one qualified actuary has been assigned responsibilities under VM-G. This could occur, for example, when the company assigns responsibility for different groups of policies to different qualified actuaries. Additionally, clarification of Subsection 3.D.12.c of VM-31 is needed because it currently refers to “the stochastic exclusion modeling test,” a term not defined in the Valuation Manual.

We also propose that the reference to the PBR Actuarial Report in the title of VM-31 be changed to reflect the full name of the report instead of “PBR Report” to be consistent with the text of VM-31.

* 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:

Dates: Received	Reviewed by Staff	Distributed	Considered
Notes:			

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**VM-31 PBR ACTUARIAL REPORT REQUIREMENTS FOR BUSINESS
SUBJECT TO A PRINCIPLE-BASED RESERVE VALUATION**

Section 1. Purpose

These requirements establish the minimum reporting requirements for policies or contracts subject to principle-based reserve valuation under the Standard Valuation Law.

Section 2. General Requirements

- A. Each year a company shall prepare, under the direction of one or more qualified actuaries, as assigned by the company under the provisions of VM-G, a principle-based reserve actuarial report (PBR Actuarial Report) if the company computes a deterministic or stochastic reserve as defined in VM-20 for any policy or contract. The PBR Actuarial Report shall consist of one or more sub-reports, each such sub-report covering a group of policies comprised of one or more model segments. Each such sub-report shall be prepared by the qualified actuary assigned responsibility for such group of policies under the provisions of VM-G. The PBR Actuarial Report must include documentation and disclosure sufficient for another actuary qualified in the same practice area to evaluate the work.

A company that does not compute any deterministic or stochastic reserves for a group of policies as a result of the company passing the exclusion tests as defined in VM-20 Section 6 for all policies in that group must develop a sub-report for that group that addresses the requirements of Section 3.D.10, and 3.D.12.c. if applicable.

- B. The PBR Actuarial Report must include descriptions of all material decisions made and information used by the company in complying with the minimum reserve requirements and must comply with the minimum documentation and reporting requirements set forth in Section 3.
- C. The company shall submit a PBR Actuarial Report to a commissioner upon request.
- D. The company shall retain on file, for at least seven (7) years from the date of filing, sufficient documentation so that it will be possible to determine the procedures followed, the analyses performed, the bases for assumptions and the results obtained in a principle-based valuation.

Section 3. PBR Actuarial Report Requirements

- A. For purposes of this section.
1. For individual life insurance policies, “principle-based reserves” means that deterministic and/or stochastic reserves were calculated for policies under VM-20.
 2. For variable annuity contracts, “principle-based reserves” means that reserves were calculated for contracts under VM-21.
- B. The PBR Actuarial Report shall contain a table of contents with associated page numbers.
- C. The PBR Actuarial Report shall contain an overview section at the beginning of the report. The overview section shall be submitted to the company’s domiciliary commissioner no later than April 1 of the year following the year to which the PBR Actuarial Report applies and the company shall provide this overview section to any other commissioner upon request. The overview section is a part of the PBR Actuarial Report and is subject to the same confidentiality provisions as the PBR Actuarial Report even when provided separately. The overview section shall include the following:
1. An opening paragraph identifying the qualified actuary that has been assigned by the company to prepare each sub-report of the PBR Actuarial Report, the qualifications of the qualified actuary, and the relationship of the qualified actuary to the company.

2. A description of the policies and/or contracts subject to VM-20 or VM-21 and, for VM-20, the groups of policies covered by each sub-report.
3. The company shall include a copy of Part 1 of the VM-20 Reserve Supplement from the Annual Statement Blank in the PBR Actuarial Report.
4. The company shall include a copy of Part 2 Section 1 of the VM-20 Reserve Supplement from the Annual Statement Blank in the PBR Actuarial Report.

Drafting Note: The VM-20 Reserve Supplement exposed on Nov. 18, 2015 labels the two reserve tables as Part 1 and Part 2 Section 1. The references here will be adjusted as needed based on any changes to labels used in the final adopted Supplement.

5. AFor each group of policies covered in a sub-report, a description of the risks determined material by the Qualified ~~Actuary~~qualified actuary assigned to that group of policies and associated with policies and/or contracts in that group of policies subject to a principle-based reserve valuation.
6. AFor each group of policies covered in a sub-report, a description of those areas where the Qualified ~~Actuary~~qualified actuary relied on others for data, assumptions, projections or analysis in determining the principle-based reserves and a reliance statement from each individual on whom the Qualified ~~Actuary~~qualified actuary relied which includes:
 - a. The information provided by the individual.
 - b. A statement as to the accuracy, completeness or reasonableness, as applicable, of the information provided.
7. For each group of policies covered in a sub-report, a summary of the valuation assumptions and margins for each major product line subject to a principle-based reserve valuation within that group of policies including:
 - a. Description of the method used to determine anticipated experience assumptions for each material risk factor, including the degree to which the assumptions are based on experience versus actuarial judgment or other factors, and the source of the experience (e.g., company experience v. industry study).
 - b. Description of any significant changes from the prior year in the method used to determine anticipated experience assumptions, and the rationale for the change.
 - c. List of key risk and experience reporting elements that the company is tracking in order to monitor changes in experience that will be used to update assumptions and the frequency of the tracking.
 - d. Description of the method used to determine margins for each material risk factor.
 - e. Description of any significant changes from the prior year in the method used to determine margins, and the rationale for the change.
 - f. Disclosure of any valuation assumptions or margins that are inconsistent with risk analysis and management techniques used by the company, a summary of those risk analyses and management techniques with which the assumptions or margins are inconsistent and the rationale for the inconsistency.
 - g. Description of any considerations helpful in or necessary to understanding the rationale behind and development of assumptions and margins even if such considerations are not explicitly mentioned in the Valuation Manual.

Guidance Note: The requirements in C.7 above require an executive summary version of the assumptions and margins. Additional details on assumptions and margins are included in later sections of the PBR Actuarial Report.

8. For each group of policies covered in a sub-report, a summary of the approach used to model the assets supporting the group of policies subject to a principle-based reserve valuation including:
 - a. Method used and rationale for allocating the total asset portfolio into multiple segments, if applicable.
 - b. Description of the asset portfolio, including the types of assets, duration and their associated quality ratings.
9. A description of the approach used to model risk management strategies (e.g., hedging), and other derivative programs, and a summary and description of any clearly defined hedging strategies.
10. A description of the rationale for determining whether a decision, information, assumption, risk, or other element of a principle-based reserve calculation is material. Such rationale could include such items as a percentage of surplus, a percentage of reserve, or a specific monetary value.
11. Paragraphs certifying that the PBR reserve valuation:
 - a. Was calculated in accordance with VM-05 and VM-20.
 - b. The assumptions and margins are prudent estimates.
12. A closing paragraph for each group of policies covered by a sub-report, with the signature, title, telephone number and e-mail address of the Qualified Actuaryqualified actuary, the Companycompany name and address, and the date signed.

D. PBR Actuarial Report Requirements for Individual Life Insurance Policies or Contracts.

The company shall include in the PBR Actuarial Report and in any sub-report thereof:

11. The following additional information:
 - a. The impact of individual margins on the deterministic reserve for each risk factor, or group of risk factors, that has a material impact on the deterministic reserve determined for each model segment by subtracting (i) from (ii)
 - i. The deterministic reserve for all policies, but with the reserve calculated based on the anticipated experience assumption for the risk factor and prudent estimate assumptions for all other risk factors.
 - ii. The deterministic reserve as reported.
 - b. An estimate of the aggregate impact of all margins on the deterministic reserve for each model segment. This shall be determined for each model segment by subtracting (i) from (ii)
 - i. The deterministic reserve for all policies, but with the reserve calculated based on anticipated experience assumptions for all risk factors prior to the addition of any margins.
 - ii. The deterministic reserves for all policies as reported.
 - c. For purposes of the disclosures required in 11a and 11b above
 - i. If the company believes the method used to determine anticipated experience mortality assumptions includes an implicit margin, the company can adjust the anticipated experience assumptions to remove this implicit margin. For example, to the extent the company expects mortality improvement after the valuation date, any such mortality improvement is an implicit margin and therefore is an acceptable adjustment to the anticipated experience assumptions for this

purpose. If any such adjustment is made, the company shall document the rationale and method used to determine the anticipated experience assumption.

- ii. Since the company is not required to determine an anticipated experience assumption or a prudent estimate assumption for risk factors that are prescribed for the deterministic reserve (i.e., interest rates movements, equity performance, default costs, and net spreads on reinvestment assets), when determining the impact of margins, the prescribed assumption shall be deemed to be the prudent estimate assumption for the risk factor, and the company can elect to determine an anticipated experience assumption for the risk factor, based on the company's anticipated experience for the risk factor. If this is elected, the company shall document the rationale and method used to determine the anticipated experience assumption. If the mortality segments do not qualify for the simplified method to determine prudent estimate mortality assumptions, the anticipated experience assumption for mortality is the credibility adjusted experience rates.
- d. An explanation of how the results of sensitivity tests and varying assumptions were used or considered in developing assumptions including a description of, results of, and action taken with respect to sensitivity tests performed.
- e. Description of material risks not fully reflected in cash flow model used to calculate the stochastic reserve including:
 - i. A description of each element of the cash flow model for which this provision has been made in the stochastic reserve (e.g., risk factors, policy benefits, asset classes, investment strategies, risk mitigation strategies, etc.).
 - ii. A description of the approach used by the company to provide for these risks in the stochastic reserve outside the cash flow model, and a summary of the rationale for selecting this approach, and the key assumptions justifying the underlying approach.
 - iii. If there is more than one model element included in this provision, clarifying whether a separate provision was determined for each element, or collectively for groups of two or more elements and explaining the methodology, supporting rationale and key assumptions for how separate provisions were combined.
- f. Summary of the impact of aggregation on the stochastic reserve
 - i. At least once every three (3) years, and in the current year regardless of the three (3) year requirement if the company has made a material change in its risk profile, such as buying or selling a block of business, or entering into a reinsurance arrangement covering the policies subject to these requirements, a company shall disclose the stochastic reserve for each product on a standalone basis listed in the table in Section 3.C.3 and disclose the sum of the stochastic reserves for each product less the sum of the minimum reserves for the products.
 - ii. With respect to above disclosure, the company shall disclose the nature of any approximations used and the rationale for why the approximations are appropriate.
- g. If the company uses a date that precedes the valuation date to calculate the reserves, the company shall explain why the use of such date will not produce a material change in the results if the results were based on the valuation date. Such explanation shall describe the process the qualified actuary used to determine the adjustment, the amount of the adjustment, and the rationale for why the adjustments are appropriate.
- h. Description of any approximations, and simplifications, used in reserve calculations

12. Certifications

- a. A certification from a duly authorized investment officer that the modeled asset investment strategy is consistent with the company's current investment strategy and an actuarial certification by a

qualified actuary, not necessarily the same qualified actuary that has been assigned responsibility for the PBR Report or this sub-report, regarding the modeling of clearly defined hedging strategies.

- b. A certification from senior management certifying that the principle-based valuation complies with VM-G (Corporate Governance Guidance for Principle-Based Reserves).

~~e. Certification of stochastic modeling exclusion test, if applicable.~~

c. Certification, by the qualified actuary assigned responsibility under VM-G for a group of policies that qualifies for exclusion from the requirement to calculate a stochastic reserve under the provisions of VM-20, Section 6.B.1.a.iii, that this group of policies is not subject to material interest rate risk or asset return volatility risk.