



AMERICAN ACADEMY *of* ACTUARIES

Objective. Independent. Effective.[™]

April 25, 2016

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

RE: Comment Letter on Modifications to the Net Premium Reserve

Dear Mr. Boerner,

On behalf of the American Academy of Actuaries¹ Life Reserves Work Group (“LRWG”) I wish to submit the following comments on the various Amendment Proposal Forms to modify the Net Premium Reserve (NPR) contained in VM-20.

The NPR was adopted by the NAIC to serve primarily as the tax reserve for VM-20, and also to serve as a formulaic floor reserve for regulators. As such, the LRWG does not consider the NPR to be a true risk-based calculation.

However, we offer the following comments on the current proposed modifications to the NPR.

1. The LRWG strongly believes that the true principle-based reserve is the modeled reserve (either deterministic or stochastic), since it was designed to reflect the actual risks of the company and current economic conditions. It is impossible to define a prescribed formulaic reserve that adequately reflects the risks of each company as well as current economic conditions.
2. The NPR was never designed or intended to be the standalone reserve for VM-20. Thus, the LRWG would oppose any changes to the NPR that result in a significant number of situations where the NPR becomes the standalone VM-20 reserve.
3. The ACLI has stated that the specific NPR reserve assumptions were determined in order to calibrate the NPR to be close to the deterministic reserve for a majority of companies. Based on this, we believe that the NPR should be evaluated in the

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.

aggregate, based on the total level of the NPR reserve, to ensure that it doesn't exceed the deterministic reserve for the majority of situations.

Thank you for the opportunity to provide comments on these potential modifications to the NPR.

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,

David E. Neve, MAAA, CERA, FSA
Chairperson
Life Reserves Work Group
American Academy of Actuaries