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May 2, 2017

Mr. Mike Boerner
Chair, Life Actuarial Task Force
National Association of Insurance Commissioners
Via email: Reggie Mazyck (rmazyck@naic.org)

Re: Exposed VM-20, Section 2.G Amendment Proposal (2017-14)

Dear Mr. Boerner,

The Life Reserves Work Group (LRWG) of the American Academy of Actuaries¹ is pleased to offer our comments on the exposed VM-20 Amendment Proposal Form (APF) on Section 2.G of VM-20 (LATF Exposure 2017-14).

Model Segmentation

We suggest removing the final sentence of the first paragraph in the redlined section of the APF, as shown below:

A company may use simplifications, approximations and modeling efficiency techniques to calculate the net premium reserve, the deterministic reserve and/or the stochastic reserve required by this section if the company can demonstrate that the use of such techniques does not understate the reserve by a material amount and the expected value of the reserve calculated using simplifications, approximations and modeling efficiency techniques is not less than the expected value of the reserve calculated that does not use them. ~~This does not preclude use of model segmentation for purposes of determining discount rates, as long as such use otherwise meets the aforementioned Section 2.G requirements.~~

The clause added to the last sentence of the APF would be a substantive change to the Valuation Manual, requiring companies to test all permutations of segmentation to determine which results in the highest reserves.

Furthermore, the requirements for model segmentation related to the development of discount rates are already laid out in Section 7.H of VM-20, so there may not be a need to refer to such segmentation in Section 2.G. Therefore, we recommend removing the sentence completely.

¹ The American Academy of Actuaries is a 19,000-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.

Alternative Guidance Note

We are in favor of keeping the original “Guidance Note,” moved from Section 1.C.8, and suggest removing the “Alternative Guidance Note” section recommended in the APF.

The alternative guidance note provides an example of using Section 2.G to justify the use of rounding in the principle-based reserves (PBR) calculation. We believe the rounding mechanics are not the primary simplifications intended for Section 2.G in VM-20. Instead, the examples outlined in the first guidance note of the APF better serve this purpose.

In addition, the rounding example in the alternative guidance note adds prescription to the use of rounding, which would require all companies to calculate the PBR with outer decimal figures rounded down to demonstrate the reserve is not materially understated. There generally should be an equal chance of either slightly overstating or slightly understating when rounding outer decimal figures, and any rounding that has an immaterial impact should be permissible.

In summary, the LRWG recommends removing the added wording on model segmentation and the proposed alternative guidance note from the APF.

We are grateful for your time and attention to our comments. If you have any questions or would like to further discuss this topic, please contact Heather Jerbi, assistant director of public policy, at Jerbi@actuary.org.

Sincerely,

Dave Neve, MAAA, FSA, CERA
Chairperson, Life Reserves Work Group
American Academy of Actuaries