



May 2, 2017

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

Re: Exposed VM-20 Definitions Amendment Proposal (2017-12)

Dear Mr. Boerner,

The Life Reserves Work Group (LRWG) of the American Academy of Actuaries<sup>1</sup> is pleased to offer our comments on the exposed VM-20 Amendment Proposal Form (APF) on added definitions to Section 1.C of VM-20 (LATF Exposure 2017-12).

#### “Term Life Insurance Policy” Definition

We suggest removing the proposed definition for “Term Life Insurance Policy.” We disagree with the proposed definition in the APF for the following reasons:

- There is no reference in the current definition to these policies having a temporary “term” before the contract expires or requires higher premiums to renew coverage.
- There are examples of term policies, such as return-of-premium (ROP) policies, that do not comply with the last statement in this definition of “providing little or no cash surrender value.”
- There is a specific reference to age 120 in the definition, but some companies enforce expiration of coverage at age 121.
- The proposed definition is not clearly distinguishable from some whole life policies.

Until another definition of “Term Life Insurance Policy” is proposed that incorporates these points, we recommend not adding the proposed definition to VM-20.

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<sup>1</sup> 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.

### “Index Life Insurance Policy” Definition

We suggest removing the proposed definition for “Index Life Insurance Policy” in the APF. Currently, “Index Life Insurance Policy” is not referred to anywhere in the Valuation Manual, so there is no need for the added definition at this time.

If there is a future Valuation Manual proposal that affects the reserve treatment for indexed universal life insurance policies, then we suggest adding a definition for “Indexed Universal Life Insurance Policy” that is consistent with NAIC Model #585, shown below:

“Indexed Universal Life Insurance Policy – A universal life insurance policy where interest credits are linked to an external index or indices.”

### “Aggregation Subgroup” Definition

The proposed definition for “Aggregation Subgroup” presents a substantial change in that companies would no longer be able to combine policies within the same product group that have risks managed together if they are not “investing assets in the same way.”

Instead we propose using the definition that is already outlined in Section 5.A of VM-20, as shown below:

“Aggregation Subgroup – A subgroup of policies that is aggregated for the stochastic reserve calculation, which shall be determined in a manner that is consistent with how the company manages risks across the different product types and that reflects the likelihood of any change in risk offsets that could arise from shifts between product types.”

If the NAIC chooses to add the above definition to Section 1.C, we also suggest removing the same wording from Section 5.A to avoid having this definition in multiple places within VM-20. If Section 5.A is left unchanged, then we alternatively suggest just referring to Section 5.A in the Section 1.C definition.

**In summary, the LRWG recommends removing the proposed definitions for “Term Life Insurance Policy” and “Index Life Insurance Policy,” as well as modifying the definition of “Aggregation Subgroup” to reference Section 5.A of VM-20.**

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](mailto:Jerbi@actuary.org).

Sincerely,

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