Life and Health Actuarial Task Force
Amendment Proposal Form*

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

   Dave Neve, chair Academy Life Reserve Work Group – Margin Ratio Disclosure

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 3/25/2010, Section 9.B.7.

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 attached document, committees_lhatf_VM-20 032510 ED11 with LRWG 9C Edits.pdf

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

   The Margin Ratio provides the regulator with an additional tool to assess the estimate of the aggregate level of margins in the reserve, and to enable a comparison between companies. The Margin Ratio facilitates comparison of the estimate of the aggregate margin in the reserve with the level of risk as measured by RBC. A higher ratio suggests that margins are more conservative relative to risk than a lower ratio. Simplified approaches are permitted to project the company action level RBC, such as using a small set of weighted average risk factors that roughly replicate the company’s actual C1 – C4 components of the RBC formula.

   Policies that pass the SR and DR exclusion tests where the minimum reserve is defined to be either the current CRVM or the net premium reserve are not included in the Margin Ratio.

   The theoretical foundation for this ratio is found in a paper published by Steve Strommen that is attached.

* 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.

<u>NAIC Staff Comments</u>:

Dates: Received	Reviewed by Staff	Distributed	Considered
Notes:			

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Section 9: Assumptions
9B: Assumption Margins
New item 9.B.7.

7. The company shall calculate and disclose a Margin Ratio to quantify the aggregate margin for all blocks of business except those policies that pass the Deterministic Exclusion Test. The Margin Ratio is calculated in the aggregate for all policies and is defined as a) divided by b) where:

   a) is the estimate of the aggregate margin in the reserve. The estimate of the aggregate margin is the excess of the minimum reserve over the scenario reserve from the baseline scenario of the stochastic exclusion test. Note that the scenario reserve for the stochastic exclusion test is calculated using anticipated experience assumptions with no margins.

   b) is the present value of the future capital associated with the blocks of business for which the Margin Ratio is calculated. The future capital shall be estimated as an amount for each projected year. The estimated amount of capital for each year shall be based on the projected size and state of the liability in that year. Simplified formulas may be used to estimate the future capital amounts; however, such formulas should be calibrated so that they produce an amount of capital on the valuation date that is approximately equal to the NAIC RBC (company action level) associated with the blocks of business, including its liabilities and supporting assets, on the valuation date. The present value of these future capital amounts shall be determined using the same discount rates that were used when calculating the scenario reserve under the baseline scenario.

   Guidance note: This disclosure is only required for blocks of business where calculation of the Deterministic Reserve or the Stochastic Reserve is required. No such disclosure is required for blocks of business where no cash flow projections are used in the process of determining the reserve.

   Guidance note: The Margin Ratio facilitates comparison of the estimate of the aggregate margin in the reserve with the level of risk as measured by RBC. A higher ratio suggests that margins are more conservative relative to risk than a lower ratio.