



AMERICAN ACADEMY *of* ACTUARIES

**Consistency Work Group
Review and Recommendation of Definitions for VM-01
March 2010**

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Per a request by the Life and Health Actuarial Task Force at the December 2009 NAIC National Meeting, the Consistency Work Group reviewed a document generated by Mike Boerner detailing terms included in VM-01 and recommendations for actions related to defining those terms. The Academy Work Group added a third column indicating its own recommendations for action. This document also includes recommended changes within definitions, as appropriate.

Definitions Table – 11/10/09 from M. Boerner – With Consistency Work Group recommendation

<u>VM-01 Term</u>	<u>Mike B. recommendation</u>	<u>ConsWG recommendation</u>
• Accident and Health Insurance	add to VM01	Agree
• Accumulated Deficiency	use AG43 def	use AG43*
• Actuarial Opinion	no change to VM01	Agree
• Actuarial Standards Board	no change	Agree
• Actuary	delete from VM01	Agree
• Aggregate Reserve	not in VM01 – keep it out	Agree
• Annual Statement	go w/ VM-30 definition	Agree
• Anticipated Experience Assumption	no change	Agree
• Appointed Actuary	use SVL definition	Agree
• Asset Adequacy Analysis	no change	Agree
• Asset-Associated Derivative	no change	Agree
• Cash Flows	no change	Agree
• Cash Flow Model	no change	Agree
• Cash Surrender Value	no change to VM01	Change*
• CDHS	no change to VM01	Change*
• Commissioner	no change	Agree
• Company	go w/ SVL definition	Agree
• Conditional Tail Expectation	no change	Change*
• Conditional Tail Expectation Amt	recommend add to VM-1	Add & Change*
• CTE70	recommend add to VM-1	Leave out of VM-01
• Contract	Review	Remove from VM-01
• Credibility Segment	Accept (add to VM-1)	Change*
• Deposit-Type Contract	Accept (add to VM-1)	Agree
• Derivative Instrument	no change	Change*
• Derivative Program	no change	Agree
• Deterministic Reserve	no change	Change*
• Discount Rates	no change	Change*
• Domiciliary Commissioner	Recommend not to add to VM-1	Change*
• Fraternal Benefits	no change	Agree
• Funding of the Risks	no change	Remove, no longer in SVL
• Gross Reserve	no change	Remove the term
• Gross Wealth Ratio	no change	Drop <i>equity index</i> from VM1
• GMDB	add to VM-1	Agree
• GMIB	add to VM-1	Agree
• GPAF	add to VM-1	Agree
• Industry Mortality Table	no change	Agree
• Liability-Associated Derivative	no change	Remove, not used in VM20
• Life Insurance	add to VM-1	Agree

*See “Definition Changes Proposed by Consistency Work Group” on page 4.

• Margin	no change	Change*
• Model Segment	Review – recommend to keep VM-1 definition – Agree	
• Modified Deterministic Reserve	no change	Agree
• Mortality Segment	no change	Agree ¹
• Mortality Experience Cell	no change	Agree
• NAIC	no change	Agree
• Net Asset Earned Rates	no change	Agree
• Non-Guaranteed Elements ²	no change	
• Path	no change	
• PBR Actuarial Report	no change	
• Per Policy Reserve	no change	
• Policy	Delete from VM-01	
• Policyholder Behavior	Add to VM-01 from SVL	
• Policy Behavior Assumptions	Add to VM-01 from VM-20	
• Pretax Interest Maintenance Reserve	no change	
• Principle-Based Valuation	Add to VM-01 from SVL	
• Projection Interval	no change	
• Projection Period	no change	
• Projection Start Date	no change	
• Projection Year	no change	
• Proprietary Scenario Set	no change	
• Prudent Estimate	Is this only in VM-43?	
• Prudent Estimate Assumption	no change	

¹ This term is used in VM-21 and should be reviewed and possibly changed in VM-21

² Consistency Work Group has not yet reviewed terms from “Non-Guaranteed Elements” to “Prudent Estimate Assumption.”
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Definition Changes Proposed by Consistency Work Group

Accumulated Deficiency - ~~The term “accumulated deficiency” means the projected working reserve, if any, less the annual statement value of projected assets and measured as of the projection start date and as of the end of each projection year. (This definition applies to life and annuity products only). The term “accumulated deficiency” means an amount measured as of the end of a projection year and equals the projected Working Reserve less the amount of projected assets, both as of the end of the projection year. Accumulated Deficiencies may be positive or negative.~~

Cash Surrender Value - ~~The term “cash surrender value” means the amount available to the contract/policyholder, if any, due to surrender of the contract/policy, prior to any outstanding contract/policy indebtedness and net of any applicable surrender charges. The cash surrender value shall reflect any applicable market value adjustments where the underlying assets are reported at market value, but shall not reflect any market value adjustments where the underlying assets are not reported at market value. (Note: where there is a group certificate and it has a cash value, this applies to the certificate within the group contract/policy). The term “cash surrender value” means, for purposes of these requirements, the amount available to the contractholder upon surrender of the contract, prior to any outstanding contract indebtedness and net of any applicable surrender charges, where the surrender charge reflects the availability of any free partial surrender options. For contracts where all or a portion of the amount available to the contractholder upon surrender is subject to a market value adjustment, however, the cash surrender value shall reflect the market value adjustment consistent with the required treatment of the underlying assets. That is, the cash surrender value shall reflect any market value adjustments where the underlying assets are reported at market value, but shall not reflect any market value adjustments where the underlying assets are reported at book value.~~

Clearly Defined Hedging Strategy (CDHS) - ~~The term “clearly defined hedging strategy” means a type of prospective derivative program of the company that: a) is established to hedge risks through the future purchase or sale of derivative instruments or opening or closing of hedging positions; b) may be dynamic, static or a combination thereof; and c) meets the requirements specified in the applicable reserve standard. The term “clearly defined hedging strategy” means a strategy undertaken by a company to manage risks that meets the criteria specified in the applicable requirement.~~

Conditional Tail Expectation - The term “conditional tail expectation”, or “CTE”, means a risk measure that is calculated as the average of all modeled outcomes (ranked from lowest to highest) above a prescribed percentile. For example, CTE 70 is the average of the highest 30% modeled outcomes.

Conditional Tail Expectation Amount - The Conditional Tail Expectation Amount is equal to the Conditional Tail Expectation of the Scenario Greatest Present Values applied at the 70th percentile.

Credibility Segment - The term “credibility segment” means a group of policies subject to the same level of underwriting and same risk classification procedures that are grouped together for the purpose of determining whether the policies qualify for the simplified method to determine prudent estimate mortality assumptions ~~in Section 8.C.~~

Derivative Instrument - The term “derivative instrument” means ‘an agreement, option, instrument or a series or combination thereof: a) To make or take delivery of, or assume or relinquish, a specified amount of one or more underlying interests, or to make a cash settlement in lieu thereof; or b) That has a price, performance, value or cash flow based primarily upon the actual or expected price, level, performance, value or cash flow of one or more underlying interests.’ (Source: *NAIC Accounting Practices and Procedures Manual*). This includes, but is not limited to, an option, warrant, cap, floor, collar, swap, forward or future, or any other agreement or instrument substantially similar thereto or any series or combination thereof. ~~Each derivative instrument shall be viewed as part of a specific derivative program.~~

Deterministic Reserve - The term “deterministic reserve” means a reserve amount calculated under a defined scenario and a single set of assumptions. Deterministic reserves include, but are not limited to, reserve amounts calculated using formula based methods.

Discount Rates - The term “discount rates” means the ~~path of~~ rates used to derive ~~a~~ the present value.

Domiciliary Commissioner - ~~For purposes of the Guideline, this term~~ The term "domiciliary commissioner" means ~~refers to~~ the chief insurance regulatory official of the state of domicile of the company.

Margin - The term “margin” means an amount included in a prudent estimate assumption that is intended to provide for estimation error and adverse deviation related to a corresponding anticipated experience assumption.