

Actuarial Society
of Greater New
York

November 23, 2020

VM-20 and Life PBR Actuarial Report Updates

KENDRIA BODDIE, FSA

TIM CARDINAL, FSA, CERA, MAAA

Kendria Boddie

FSA

kendria.boddie@pwc.com

(309) 472 - 1649

Kendria is a Manager with PwC's Actuarial Services practice where she focuses on assisting insurers with model conversions and modernization considerations for recent accounting changes, including PBR.

Tim Cardinal

FSA, CERA, MAAA

tim.cardinal@cardinalis1.com




(513) 607 - 3019

Tim is Principal of Cardinalis 1 Consulting focusing on VM-20 consulting, PBR Actuarial Report peer reviews and GAAP LDTI implementations. He has 30 years of experience. For 19 years he was an Executive Officer with a mid-size insurer and was head of the actuarial financial reporting, corporate actuarial, and risk management departments. He is a 2014 SOA Volunteer of the Year recipient, has served on numerous industry councils and committees, and is a frequent author and presenter on a variety of business, actuarial and risk management topics. Tim is the author of the SOA commissioned PBA Implementation Guide and Sequel and developer of two online PBA courses.

Agenda

- 1 APFs adopted for 2020 VM-20
- 2 APFs adopted for 2021 VM-20
- 3 2020 VM-31 Life PBR Actuarial Report changes
- 4 Pending APFs for 2021 VM-20
- 5 Amendment to New York Regulation 213
- 6 Recap and Q&A





Mortality related APFs adopted for 2020 VM-20

APF and description	Key language updates	Actions	
2018-17: aggregation of mortality segments, credibility, company experience mortality rates	VM-20 Section 9.C VM-31 Section 3.C.3	Re-visit mortality assumption development and rationale	
2018-45: clarified adjustments to company experience mortality rates when company experience is higher than industry table	VM-20 Section 9.C.3.h	<i>If</i> PV(company) > PV(industry) at t, grading begins <i>then</i> adjust industry table	
2019-16: provided greater clarity on grading from company experience to industry table	VM-20 Section 9.C.7.b Grading table and detailed instructions for grading from company experience to the industry table added	Refer to VM-20 Section 9.C.7.b for appropriate grading procedures	

Mortality Aggregation

- Segments = groups of policies ... expected to have different mortality experience (9.C.1.a)
- Company experience data (9.C.2.b)
 1. Within segment
 2. Within company with similar underwriting (UW)
 3. Other sources with similar UW and expected mortality characteristics
- May aggregate segments: similar UW processes, similar mortality experience (9.C.2.d)
- Company experience mortality rates (9.A.6.a and 9.C.2.d.vi)
 - Top-down (9.C.2.d.vi.a), Bottom-up (9.C.2.d.vi.b), Two-step (APF 2020-08)
 - Conserve deaths

Other non-reporting APFs adopted for 2020 VM-20

APF and description	Key language updates	Actions	
2018-42: clarified when capping of face amounts is appropriate	VM-20 Section 9.C.2.g: “A ceiling on the amount of insurance for a given policy is not permitted.”	If capping the amount of insurance in company experience mortality calculation If not capping amount of insurance	 
2018-44: revised the index credited rate for the DR scenario for IUL	VM-20 Section 7.F.4.a: “[U]se X% of the amount spent on options [...], where X is equal to 100% in projection years 1–20 and 108% in projection years 21+”	If doing anything other than what is prescribed in Section 7.F.4.a <i>*Note: Section 7.F.4.a is a new section in the VM for 2020</i>	
2019-01: modified DET for conservatively reserved policies	VM-20 Section 6.B.2.b	If calculating a DR for policies converting to something other than Term / UL with a material secondary guarantee	

2020 VM-31 Life PBR Actuarial Report changes

- Valuation Analysis (E) Working Group review of 2017 Reserves Supplements and PBR Actuarial Reports led to list of 36 recommendations
 - Additional documentation and formal statements that VM-20 guidance was followed
- 2018 review of PBR reports
- Prescribed templates
 - Template A: Distribution of Direct Life Insurance Business
 - Template B (optional): Distribution of Assumed Life Insurance Business
 - Template C: Company Experience Studies
- Assumptions summary for PBR Actuarial Report
- Updated VM-20 Reserves Supplements

APFs adopted for 2021 VM-20

APF and description	Key language updates	Potential actions
2019-60: allows for use of different credibility methods for significantly different blocks of business	VM-20 Section 9.C.5.a: “[...] Not all blocks of a company’s business subject to VM-20 necessarily need to use the same credibility method.”	Can now use Limited Fluctuation for simplified issue business and Bühlmann for other business
2019-62: emphasizes need to reserve for additional risk arising from term conversions	VM-20 Section 9.C.4.d: The company must ensure excess mortality is appropriately reflected [...]. This includes [...] excess mortality associated with policies issued via conversions from term policies [...].”	Requirement is already in the VM, this APF emphasizes the requirement and outlines what is to be included in Life PBR Actuarial Report
2020-06: provides broad guidance for LIBOR replacement in swap spread calculations	VM-20 Section 9.F.8.d “[...] When the NAIC determines LIBOR is no longer effective, the NAIC shall recommend a replacement to LATF [...].”	Alternative Reference Rates Committee, Federal Reserve working group, has selected SOFR as the alternative to LIBOR

Changes to Standard Nonforfeiture Law

- 2020-07: Removal of 4% floor
- LATF adoption of 0.15% nonforfeiture floor
- Be prepared to adapt pricing and illustrations for changes to SNFL

Pending APFs for 2021 VM-20

- 2020-09: PBR exemption
 - Allow exemptions for companies with all new issues for PBR being due to conversions or exercise of options/features under existing policies
 - No required annual filing for statement of exemption – introduce ongoing exemption
- Modeling of non-guaranteed YRT reinsurance
 - Replacement of current ½ Cx interim solution
 - Criteria to assess solutions
- 2020-08: Additional permissible technique for company experience mortality calculation
 - Top-down approach
 - Bottom-up approach
 - Two-step: Meet in the middle

New York PBR Regulation 213

- Amendment to Regulation 213 adopted in February 2020
- Hybrid PBR approach that adds more conservatism to NAIC PBR reserves
- Term insurance reserves are set equal to the greater of
 - Aggregate pre-reinsurance reserve under VM-20, and
 - Greater of
 - Sum of the cash surrender value
 - 70% of the total NY 147 serial reserve
- NY Domestics can request a delay of up to 1 year for implementing the new reserve standards

Recap

- Various APFs adopted for 2020 valuation and reporting
- Begin thinking about how to adapt for APFs adopted for 2021 valuation
- Ensure pricing and illustrations are compliant with changes to SNFL
- Be prepared for NY Regulation 213

This slide intentionally left blank