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# PBA Corner

By Karen Rudolph

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## UPDATE ON STATE ADOPTION STATUS OF PRINCIPLE-BASED RESERVES

As of mid-March 2015, 21 states have passed the Standard Valuation Law revised to require principle-based reserve (“PBR”) valuations. These states include: Ariz., Conn., Fla., Hawaii, Ind., Iowa, La., Maine, Mich., Miss., Neb., N.H., N.J., N.M., Ohio, Okla., R.I., S.D., Tenn., Va., and W.V. Total premium contributed by these 21 states, based on 2008 annual statement data, is 36 percent. This implies a gap of 21 states and 39 percent of premium in achieving an operative date for the Valuation Manual. Thirteen other states (Colo., Kan., Ky., Md., Wash, Texas, Mo., Mont., Nev., N.D., Ill., Ga. Vt.) have introduced the legislation and are in various stages of approval. These 13 states represent approximately 24 percent of premium. Should the states with bills in-progress complete the adoption during 2015 sessions, the gap narrows to eight states and 15 percent of premium.

## SMALL COMPANY EXEMPTION PROVISION

During a Life Actuarial Task Force (LATF) conference call in mid-March, this group adopted an exemption that permits qualifying companies to forgo the requirements of VM-20 and instead allows them to follow VM-A and VM-C for their Ordinary Life policies. VM-A and VM-C are appendices of the Valuation Manual which include the minimum reserve requirements for policies issued before the operative date of the Valuation Manual. This has the effect of maintaining status quo for qualifying companies with respect to methodology. These companies would be allowed to recognize changes in valuation mortality tables and valuation interest rates, as is done currently.

The qualifying criteria include:

1. The company has less than \$300 million of ordinary life premiums and, if the company is a member of an NAIC group of life insurers, the group has combined ordinary life premium of less than \$600 million; and
2. The company reported Total Adjusted Capital of at least 450 percent of the authorized control level

RBC in its most recent RBC report, and the appointed actuary has provided an unqualified opinion on the reserves; and

3. Any ULSG policies issued or assumed by the company with an issue date on or after the operative date of the Valuation Manual meet the definition of a non-material secondary guarantee ULSG product.

The premium amounts noted in item 1 above are to be measured as direct plus reinsurance assumed from unaffiliated companies from the Ordinary Life line of business reported in the prior calendar year’s annual statement, Exhibit 1, Part 1. Companies that qualify need not demonstrate any product-level exclusion tests. The company would file a statement of exemption with its domestic commissioner prior to July 1 of the year of exemption. The statement is assumed approved unless the Commissioner rejects the statement, which must be communicated prior to September 1 of the same year. Should the Commissioner reject the statement of exemption, the company is required to follow the VM-20 requirements for its Ordinary Life policies. This implies the company could elect to perform the product-level exclusion tests, if applicable.


Along with this new amendment, a definition of ‘non-material secondary guarantee’ becomes necessary. The definition, approved in concert with the small company exemption described above, consists of a premium limitation and a guarantee length limitation.

1. The policy can have only one secondary guarantee provision in the form of a required premium type, not a shadow account type; and
2. The duration of the secondary guarantee is no longer than 20 years from issue for issue ages through age 60, grading down by 2/3 year for each higher issue age to age 82, and limited to five years for issue ages 83 and higher; and
3. The present value of the required minimum premiums under the secondary guarantee must be at least as great as the present value of net premiums over the maximum secondary guarantee duration allowable under the contract. This is an aggregate test and the basis for calculating the net premiums uses



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VBT rates (preferred structure allowed, but subject to existing qualification requirements) and the maximum valuation interest rate specified by VM-20 Section 3.

The motivation for this amendment was two-fold. First, it was felt that the product-level exclusion tests were onerous for a small-size company to perform, and companies in this size tier are content to continue with current reserving methods and practices. Second, the regulators sensed that advancing PBR legislation through states considering adoption would be facilitated by small company considerations.

## NEW CSO VALUATION TABLE DEVELOPMENT

Preliminary versions of both the 2017 unloaded CSO and the 2017 CSO have been made available to companies participating in the research jointly sponsored by the Society of Actuaries (SOA) and American Council of Life Insurers (ACLI). Historically, when a new valuation table was developed, the actuarial team responsible for its development would evaluate its effect on simple term and whole life product designs. With this table the approach chosen is to put it through its paces via a “field test” of sorts. During first quarter 2015 participating companies evaluated all the various versions of the new valuation tables (preferred structure, smoking-distinct structure, composite structure) as well as the formats (select and ultimate; ultimate). Several actuarial conferences have highlighted this table and its development in breakout sessions. By publication time of this article, preliminary results should be available for review.

As part of the field test, companies are also evaluating the 2014 VBT, which is the underlying basis for the 2017 CSO. A VM-20 deterministic reserve calculation will be used to calibrate not only the new table against the current table, but also the net premium reserve (NPR) against the deterministic reserve. Insights gained through this analysis will inform future definitions of NPR. ■