

Valuation Manual & PBR Regulator Perspective

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Valuation Manual & PBR

- History
- Events of Spring & Summer 2012
- Early Fall 2012
- Valuation Manual Operative Date
- Variety of Customers & Needs
- Process Change – Uniformity & Efficiencies
- PBR Implementation – Company Considerations
- PBR Implementation – Regulator Considerations
- Some Valuation Manual & PBR Detail
- On tap for Fall 2012 LATF NAIC Meeting

HISTORY

- Unified Valuation System (UVS) – Over 10 years ago. Implementation questions
- 2005 – Initial drafts of SVL changes (Texas, New York, & Alaska)
- SVL changes would enable a Valuation Manual (VM)
- September 2006: AAA Valuation Law & Manual Team (VLMT) held first call to discuss VM & input to SVL

HISTORY (cont'd)

- 2007 – One year later AAA VLMT provided draft VM to NAIC Life Actuarial Task Force (LATF)
- 2008 – 2009: LATF worked on VM & enabling SVL. NAIC adopted SVL in 2009
- 2010 – 2011: LATF continued VM work. PBR testing project carried out in 2011
- 2012: LATF Spring Meeting

LATF Spring 2012 Meeting

- Commissioner Kitzman (TX) and Commissioner McPeak (TN), “A” Committee Chair, set a target for LATF to adopt the initial version of the Valuation Manual during the summer of 2012
- Remaining key hurdles included proposed adjustments to the Net Premium Reserve Method for term and ULSG plus remaining work for the mortality assumption.
- Actuarial Guideline 38 also would require a commitment of time by LATF to support the work of the Joint A&E Working Group

Spring - Summer 2012

- LATF was involved in numerous calls from April thru July 2012 for both Valuation Manual amendments and Actuarial Guideline 38. Mortality development changed more than once during this time
- LATF adopted the initial version of the Valuation Manual in a LATF call on 8/2/12 just prior to the Summer NAIC 2012 meeting
- After the summer meeting the parent NAIC “A” Committee then followed the LATF adoption and adopted the Valuation Manual on 8/17/12

Early Fall 2012 to Date

- LATF reported during the Summer 2012 NAIC meeting plans to adopt a few more amendments to the Valuation Manual prior to the Fall 2012 NAIC meeting
- LATF adopted seven VM amendments which included additional adjustments to mortality including specifying the confidence level and margin of error used to calculate the mortality credibility percentage which is key for the mortality assumption. Clarifying amendments were also adopted including clarification of the economic scenarios to be used for the PBR calculations

Super Majority Vote Required For VM to Become Operative

VM becomes operative on January 1 following:

- 1) SVL legislative enactment by at least 42 of the 55 jurisdictions (50 States, American Samoa, American Virgin Islands, District of Columbia, Guam, and Puerto Rico); and
- 2) SVL legislative enactment by states representing greater than 75% of direct premiums written as reported in 2008 annual statements; and
- 3) NAIC adoption of VM by 42 members or 75% of members voting, whichever is greater

Super Majority Vote For VM Changes Once VM is Operative

Once operative, changes to the VM are effective on the January 1st following:

- NAIC adoption by 75% of members voting, but not less than a majority of total membership; and
- NAIC adoption representing jurisdictions with greater than 75% of direct premiums written reported in the most recent annual statements

Legislative Package

- The Standard Valuation Law changes and changes to the Standard Nonforfeiture Law for Life Insurance (SNFL) would be considered as a package for legislative adoption
- The SNFL changes enable the VM to coordinate interest and mortality nonforfeiture assumptions as appropriate with those for valuation.

When Will The VM & PBR Become Operative?

- January 1st, 2014?
- January 1st, 2015?
- January 1st, 2016?

Variety of Customers & Needs

INCLUDES:

- Companies: Small, medium, large, various products & markets
- Regulators: Solvency focus
- Consumers

Process Change

- Current Process For Requirements
- VM provides for same requirements, same cite, same time
- APPM to reference VM requirements, same timing, 26 state requirement always met
- VM reserve changes automatically satisfies 26 state tax qualified reserve requirement
- Efficiencies for both regulators & companies

PBR Implementation – Company Considerations

- Three year transition period
- Exemption criteria provided to exempt simpler products with less risk from more rigorous PBR calculations
- Certain products exempted without exemption criteria used
- Single state exemption

PBR Implementation – Regulator Considerations

- Resource Considerations
- Incorporation in examination & annual analysis procedures
- Consistency in review across states
- PBR Review & Updating Process
- Training

Valuation Manual At A Glance

Contains Requirements For:

- PBR & Non-PBR reserve requirements which apply to issues on & after VM operative date
- PBR annual reports
- Actuarial opinions & memorandums
- Experience reporting
- Governance

VM Life PBR Requirements (VM-20)

- Variable and non-variable individual life contracts
- Greatest of 3 reserves (Net Premium Reserve, Deterministic Reserve, & Stochastic Reserve)
- Excludes Preneed & Credit Life
- Option to use 3 year transition period
- Deterministic & Stochastic reserve exemptions

Deterministic reserve (DR)

- Models cash flows over a single economic scenario
- Assuming only one model segment the DR is the present value of projected benefits, expenses, & related amounts less the present value of projected premiums & related amounts

Stochastic Reserve (SR) Assuming Only One Model Segment

- For each economic scenario starting & reinvestment assets are projected and increased / reduced by projected cash flows to derive future deficits
- RV for each economic scenario equals starting assets + largest PV of future deficit
- $SR = CTE\ 70 + \text{any additional amount for material risk not reflected}$

Stochastic Reserve (SR) Exclusion Tests

Products can be excluded from the SR if:

- Certification provided by qualified actuary of no material interest rate risk or asset return volatility risk (cannot be used for certain products); or
- Stochastic exclusion ratio test is passed; or
- Demonstration provided that reserves will not increase under stochastic requirements

Deterministic Reserve Exclusion Test

- Products can be excluded from the deterministic reserve requirements if the sum of the net valuation premiums are less than the sum of the corresponding gross premiums
- Cannot be used for universal life products with secondary guarantees or for products required to calculate the stochastic reserve

Future Valuation Manual Work

- Aggregate versus individual margins
- Widening the collar for the stochastic reserve calculation
- PBR for non-variable annuities
- Company use of own stochastic generator
- Consider allowance for partial risk transfer

Future Work (cont'd)

- PBR blanks reporting
- Financial Analysis Handbook & exam procedures
- Experience Reporting & NAIC Statistical Agent & analysis process
- APPM reference to VM requirements
- PBR Review & Updating Process
- Regulator Resources for PBR Review

Fall 2012 LATF Meeting

Tuesday, November 27, 2012 (8 a.m. – 4 p.m.)

1. Actuarial Guideline XXXIII
2. Nonforfeiture Modernization
3. C3 Phase 2 / AG 43 Subgroup Status
4. Actuarial Opinion & Memorandum
5. Valuation Manual
(Issues, APFs, Subgroup Reports)
6. PBR Review & Updating Process

Fall 2012 LATF Meeting (cont'd)

Wednesday, November 28, 2012 (8 a.m. – noon)

1. Report from the IIPRC
2. Experience Reporting – VM 50 & 51, NY Pilot Project
3. Valuation Manual (Includes Blanks for PBR, APPM, VM Amendment Process)
4. Synthetic GICs – ARWG Deposit Fund Subgroup
5. Professionalism – American Academy of Actuaries
6. International Update

A Few Additional Notes

LATF Adoptions Prior to Fall 2012 NAIC Meeting

- GRET Table for 2013
- Adopted the 2012 Individual Annuity Reserving Table. Reflected adoption in changes to Model 821, “NAIC Model Rule for Recognizing A New Annuity Mortality Table For Use In Determining Reserve Liabilities For Annuities”
- Texas and other states will begin adoption by rule of Model 821 changes during 2013. Changes provides for table to go into effect for issues on and after 1/1/2014

Actuarial Guideline 38 New 8D & 8E Filings in Texas

- Working on Texas bulletin to domestic companies regarding required filings

Questions

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