



AMERICAN ACADEMY of ACTUARIES

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July 5, 2016

Mr. Mike Boerner  
Chair, Life Actuarial Task Force  
National Association of Insurance Commissioners

Dear Mr. Boerner,

The Life Reserves Work Group (LRWG) of the American Academy of Actuaries<sup>1</sup> is pleased to offer our comments on the exposed NAIC Staff Amendment Proposal Form (APF) on VM-20 Product Aggregation.

We support Option 1 regarding the revision to Section 5.G. that defines the approach to allocate the stochastic reserve to the three product types (Term, ULSG, and all other products). Option 1 is consistent with the LRWG proposal on this issue that was described in our April 25 comment letter. It permits the recognition of risk offsets between the three product types, which the LRWG believes is a fundamental principle of a principle-based system, and it produces an appropriate allocation of the total stochastic reserve to the three product types.

We suggest the following non-substantive edits to the Option 1 wording to improve clarity:

If the group of policies for which a stochastic reserve in Subsection 5.F. was calculated included more ~~that than~~ one type of product, where product type is defined to be term insurance policies, ULSG policies, and all other ~~types of~~ policies, a stochastic reserve shall be determined for each product ~~type group~~ by following the process of A – ~~FC~~ above by treating each product ~~type~~ as a subgroup, ~~but and~~ using the same scenarios that created the CTE70 for the entire group of policies ~~in the aggregate~~. If the sum of the stochastic reserve for each product ~~type group~~ does not equal the ~~aggregate stochastic reserve total~~ for the entire group of policies, the ~~aggregate stochastic reserve total~~ shall be allocated to each product ~~type group~~ proportionally, or according to appropriate actuarial principles, justification for which shall be supplied in the PBR Actuarial Report.

<sup>1</sup> The American Academy of Actuaries is an 18,500+ member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

In addition, we suggest the following minor edit to the last sentence of Section 5.A.:

If more than one product type is included in a subgroup, the reserve for each product ~~group~~ type shall also be determined, as described in Section 5.G.

The other revisions to VM-20 in the APF provide useful clarifications, especially the revised wording in Section 2.A. to allocate the minimum reserve to the three product types.

In summary, the LRWG supports the adoption of this APF with Option 1, along with the proposed non-substantive wording edits described above.

Thank you for the opportunity to provide input. If you have any questions or would like to further discuss these topics, please contact Amanda Darlington, life policy analyst, at [darlington@actuary.org](mailto:darlington@actuary.org).

Sincerely,

David E. Neve, MAAA, CERA, FSA  
Chairperson  
Life Reserves Work Group  
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