Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force
Amendment Proposal Form*

1. Identify yourself, your affiliation and a very brief description (title) of the issue.

   Dave Neve, chairperson of American Academy of Actuaries Life Financial Soundness/Risk Management Committee VM-01 Definitions.

2. Identify the document, including the date if the document is "released for comment," and the location in the document where the amendment is proposed:

   VALUATION MANUAL – VM-01 August 2010 Proposed Draft

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted or changed by providing a red-line (turn on "track changes" in Word®) version of the verbiage. (You may do this through an attachment.)

   See attached document

4. State the reason for the proposed amendment? (You may do this through an attachment.)

   VM-01 definitions need to be updated to reflect the changes made to VM-20 since the definitions section was last updated.

* This form is not intended for minor corrections, such as formatting, grammar, cross–references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
Notes:			

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Definitions for Terms in Requirements - VM-01

Draft 8/12/10

The NAIC solicits comments on this draft. Comments should be sent to John Engelhardt, NAIC, at JEngelha@naic.org.

NOTE: VMs where a term is used are listed in parentheses at the end of the definition for that term. Any terms defined in VM-5 (SVL) are noted.

VM-01: DEFINITIONS FOR TERMS IN REQUIREMENTS

1. The term "accident and health insurance" means contracts that incorporate morbidity risk and provide protection against economic loss resulting from accident, sickness, or medical conditions and as may be specified in the valuation manual. (SVL definition. Used in VM-0, 5, 25, 31)

2. The term "accumulated deficiency" means an amount measured as of the end of a projection period and equal to the Working Reserve less the amount of projected assets. Accumulated Deficiencies may be positive or negative. (Used in VM-20, 21)

3. The term "actuarial opinion" means the opinion of an appointed actuary regarding the adequacy of reserves and related actuarial items. (Used in VM-0, 5, 21, 30)

4. The term "Actuarial Standards Board" means the board established by the American Academy of Actuaries to develop and promulgate actuarial standards of practice. (Used in VM-5, 20, 21, 30)

5. The term "annual statement" means the statutory financial statements a company must file using the annual blank with a state insurance commissioner as required under state insurance law. (Used in VM-20, 21, 25, 30, 31)

6. The term "anticipated experience assumption" means an expectation of future experience for a risk factor given available, relevant information pertaining to the assumption being estimated. (Used in VM-20, 21)

7. The term "appointed actuary" means a qualified actuary who is appointed or retained in accordance with the valuation manual to prepare the actuarial opinion required in Section 3A of the Standard Valuation Law (VM-5). (SVL definition. Used in VM-5, 20, 30, 31)

8. The term "asset adequacy analysis" means an analysis that meets the standards and other requirements referred to in VM-30. (Used in VM-20, 30)

9. The term "asset-associated derivative" means a derivative program whose derivative instrument cash flows are combined with asset cash flows in performing the reserve calculations.

10. The term "cash flows" means any receipt, disbursement, or transfer of cash or asset equivalents. (Used in VM-0, 20, 21, 30, 31)

11. The term "cash flow model" means a model designed to simulate asset and liability cash flows. (Used in VM- 20, 31)

12. 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 is reduced to reflect the impact of available 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. (Used in VM-5, 20, 21)

13. The term “clearly defined hedging strategy” means a strategy undertaken by a company to manage risks that meet the criteria specified in the applicable requirement. (Used in VM-20, 21, 31)

14. The term “commissioner” means the chief insurance regulator of a state, district or territory of the United States. (Used in VM-0, 5, 20, 21, 25, 26, 30, 31, 50)

15. The term “company” means an entity which (a) has written, issued, or reinsured life insurance contracts, accident and health insurance contracts, or deposit-type contracts in this State and has at least one such policy in force or on claim or (b) has written, issued, or reinsured life insurance contracts, accident and health insurance contracts, or deposit-type contracts in any state and is required to hold a certificate of authority to write life insurance, accident and health insurance, or deposit-type contracts in this State. (SVL definition. Used in VM-0, 5, 20, 21, 25, 26, 30, 31, 50, 51)

16. 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. (Used in VM-20 and VM-21)

17. ~~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 9.C of VM-20. (Used in VM-20, 31)~~

18. The term “deposit-type contract” means contracts that do not incorporate mortality or morbidity risks and as may be specified in the valuation manual. (SVL definition. Used in VM-0, 5, 31)

19. 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. (Used in VM-20, 21)

20. The term “derivative program” means a program to buy or sell one or more derivative instruments or open or close hedging positions to achieve a specific objective. Both hedging and non-hedging programs (e.g., for replication or income generation objectives) are included in this definition. (Used in VM-20, 31)

21. 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 reserves calculated using formula based methods.~~ (Used in VM-20, 31)

22. The term “discount rates” means the path of rates used to derive the present value. (Used in VM-20, 21)

23. The term “domiciliary commissioner” means the chief insurance regulatory official of the state of domicile of the company. (Used in VM-21, 30, 50)

24. The term “fraternal benefits” means payments made for charitable purposes by a fraternal life insurance company that are consistent with and/or support the fraternal purposes of the company._(Used in VM- 20)

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25. The term "pre-reinsurance-ceded minimum ~~gross~~ reserve" means the amount of the Minimum ~~Reported~~ Reserve that would have been held in the absence of any ceded reinsurance. This includes direct and assumed business. (Used in VM-20)

26. The term "gross wealth ratio" means the cumulative return for the indicated time period and percentile (e.g., 1.0 indicates that the index is at its original level). (Used in VM-21)

27. The term "Guaranteed Minimum Death Benefit" or "GMDB" is a guaranteed benefit providing, or resulting in the provision that, an amount payable on the death of a contractholder, annuitant, participant, or insured will be increased and/or will be at least a minimum amount. Only such guarantees having the potential to produce a contractual total amount payable on death that exceeds the account value, or in the case of an annuity providing income payments, an amount payable on death other than continuation of any guaranteed income payments, are included in this definition. GMDBs that are based on a portion of the excess of the account value over the net of premiums paid less partial withdrawals made (e.g., an Earnings Enhanced Death Benefit) are also included in this definition. (Used in VM-21)

28. The term "Guaranteed Minimum Income Benefit" or "GMIB" is a VAGLB design for which the benefit is contingent on annuitization of a variable deferred annuity or similar contract. The benefit is typically expressed as a contractholder option, on one or more option dates, to have a minimum amount applied to provide periodic income using a specified purchase basis. (Used in VM-21)

29. The term "Guaranteed Payout Annuity Floor" or "GPAF" is a VAGLB design guaranteeing that one or more of the periodic payments under a variable immediate annuity will not be less than a minimum amount. (Used in VM-21)

30. The term "industry basic ~~mortality~~ table" means an NAIC approved mortality table ~~(~~without the valuation margins~~) used for credibility weighting purposes to blend with the company's experience mortality rates when the company's experience is less than 100% credible~~. (Used in VM-20)

31 The term "life insurance" means contracts that incorporate mortality risk, including annuity and pure endowment contracts, and as may be specified in the valuation manual. (SVL definition. Used in VM-0, 5, 20, 25, 26, 30, 31, 50, 51)

32. The term "margin" means an amount included in the assumptions used to determine the Minimum ~~Reported~~ Reserve that incorporates conservatism in the calculated value consistent with the requirements of the various sections of the Valuation Manual. It is intended to provide for estimation error and adverse deviation. (Used in VM-5, 20, 21, 25, 26, 31)

33. The term "model segment" means a group of policies and associated assets that are modeled together to determine the path of net asset earned rates. (Used in VM-20, 31)

34. ~~The term "modified deterministic reserve" means the amount used as a replacement for the portion of the stochastic reserve for those policies falling within the stochastic modeling exclusion. (Used in VM-31)~~

35. ~~The term "mortality experience cell" means a subset of policies from a mortality segment that are grouped together when determining credibility adjusted experience rates. (Used in VM-20)~~

36. The term "mortality segment" means a subset of policies from a credibility segment for which a separate mortality table representing the prudent estimate assumption will be determined. (Used in VM-20, 21, 31)

37. The term "NAIC" means the National Association of Insurance Commissioners. (SVL definition. Used in VM-0, 5, 20, 21, 25, 26, 30, 31, 50, 51)

38. The term "net asset earned rates" means the path of earned rates reflecting the net general account portfolio rate in each projection interval (net of appropriate default costs and investment expenses). (Used in VM-20, 31)

39. The term “net premium reserve” means the amount determined in Section 3 of VM-20. (Used in VM-0)

40. The term “non-guaranteed elements (NGE)” means either: (a) dividends under participating policies or contracts; or (b) other elements affecting life insurance or annuity policyholder/contract holder costs or values that are both established and subject to change at the discretion of the insurer. (Used in VM-20, 31)

41. The term “path” means a time-indexed sequence of a set of values. (Used in VM-20, 21, 31)

42. The term “PBR actuarial report” means the supporting information prepared by the company as required by VM-31. (Used in VM-20)

43. ~~The term “per policy reserve” means an amount determined for each policy that equals the greater of the cash surrender value and the seriatim reserve. (Used in VM-20)~~

44. The term “policyholder behavior“ means any action a policyholder, contract holder or any other person with the right to elect options, such as a certificate holder, may take under a policy or contract subject to the SVL (VM-5) including, but not limited to, lapse, withdrawal, transfer, deposit, premium payment, loan, annuitization, or benefit elections prescribed by the policy or contract but excluding events of mortality or morbidity that result in benefits prescribed in their essential aspects by the terms of the policy or contract. (SVL definition. Used in VM-0, 5, 20, 31, 50, 51)

45. The term “pretax interest maintenance reserve” (PIMR) means the statutory interest maintenance reserve liability adjusted to a pretax basis for each model segment at the projection start date and at the end of each projection interval. (Used in VM-20)

46 The term “principle-based valuation” means a reserve valuation that uses one or more methods or one or more assumptions determined by the insurer and is required to comply with Section 12 of the SVL (VM-5) as specified in the valuation manual. (SVL definition. Used in VM-0, 5, 20, 31, 50, 51)

47. The term “projection interval” means the time interval used in the cash flow model to project the cash flow amounts (e.g., monthly, quarterly, annually). (Used in VM-20, 21)

48. The term “projection period” means the period over which the cash flow model is run. (This definition applies to life and annuity products only). (Used in VM-20, 21, 31)

49. The term “projection start date” means the date on which the projection period begins. (Used in VM-20, 21)

50. The term “projection year” means a 12-month period starting on the projection start date or an anniversary of the projection start date. (Used in VM-20, 21)

51. The term “prudent estimate assumption” means a risk factor assumption developed by applying a margin to the anticipated experience assumption for that risk factor. (Used in VM-20, 21, 31)

52. The term “qualified actuary” means an individual who is qualified to sign the applicable statement of actuarial opinion in accordance with the American Academy of Actuaries qualification standards for actuaries signing such statements and who meets the requirements specified in the valuation manual. (SVL definition. Used in VM-5, 20, 21, 25, 30)

53. The term “reinsurance aggregate cash flows” means the difference between the reinsurance cash flows and reinsurance discrete cash flows, as defined in VM-01. Examples of reinsurance aggregate cash flows include experience refunds, or the incremental impact of an overall cap on reinsurance discrete cash flows that would otherwise be payable by the reinsurer. (Used in VM-20)

54. The term “reinsurance cash flows” means the amount paid under a reinsurance agreement between a ceding company and an assuming company. Positive reinsurance cash flows shall represent amounts payable from the

assuming company to the ceding company; negative reinsurance cash flows shall represent amounts payable from the ceding company to the assuming company. (Used in VM-20, 31)

55. The term "reinsurance discrete cash flows" means reinsurance cash flows determined by applying reinsurance terms to an individual covered policy, without reference to the circumstances and events of other policies. Examples of reinsurance discrete cash flows would be proportional sharing of one or more items of revenue or expense associated with an underlying reinsured policy, without attempting to take into account the potential impact of an overall dollar cap in the reinsurance agreement, for all covered policies, on the total revenues or expenses shared for policies in the covered group. (Used in VM-20)

56. The term "revenue sharing" means any arrangement or understanding by which an entity responsible for providing investment or other types of services makes payments to the company or to one of its affiliates. Such payments are typically in exchange for administrative services provided by the company or its affiliate, such as marketing, distribution and recordkeeping. Only payments that are attributable to charges or fees from the underlying variable funds or mutual funds supporting the policies or contracts that fall under the scope of the given standard shall be included in the definition of "revenue sharing." (Used in VM-20, 21, 31)

57. The term "risk factor" means an aspect of future experience that is not fully predictable on the valuation date. (Used in VM-21, 31)

58. The term "scenario" means a projected sequence of events used in the cash flow model, such as future interest rates, equity performance, or mortality. (Used in VM-5, 20, 21, 31)

59. The term "scenario reserve" means the amount determined on an aggregated basis for a given scenario that is used as a step in the calculation of the stochastic reserve. (Used in VM-20, 21, 30, 31)

60. A "secondary guarantee" is a guarantee that a policy will remain in force for some period of time (the secondary guarantee period) even if its fund value is exhausted, subject to one or more conditions. (Used in VM-0, 20)

~~61. The term "seriatim reserve" means the amount determined for a given policy that is used as a step in the calculation of the deterministic reserve. (Used in VM-20, 31)~~

62. The term "stochastic exclusion test" means a test ~~of reserves under specified economic scenarios~~ to determine whether a group of policies is required to comply with stochastic modeling requirements. (Used in VM-20)

63. The term "stochastic reserve" means the amount determined by applying a measure (e.g., a prescribed CTE level) to the distribution of scenario reserves over a broad range of stochastically generated scenarios and using prudent estimate assumptions for all assumptions not stochastically modeled. ~~The "stochastic reserve" includes a provision for policies subject to a stochastic modeling exclusion.~~ (Used in VM-20, 31)

64. The term "tail risk" means a risk that occurs either where the frequency of low probability events is higher than expected under a normal probability distribution or where there are observed events of very significant size or magnitude. (SVL definition. Used in VM-5, 20)

65. The term "universal life insurance policy" means a life insurance policy where separately identified interest credits (other than in connection with dividend accumulations, premium deposit funds, or other supplementary accounts) and mortality and expense charges are made to the policy. A universal life insurance policy may provide for other credits and charges, such as charges for cost of benefits provided by rider. (Used in VM-20)

66. The term "valuation date" means the date for which the minimum ~~reported~~ reserve is to be valued as required by the Standard Valuation Law. (Used in VM-5, 20, 21, 25, 26, 30, 31)

67. The term "valuation manual" means the manual of valuation instructions adopted by the NAIC as specified in the Standard Valuation Law (VM-5) or as subsequently amended. (SVL definition. Used in VM-0, 5, 20, 21, 25, 26, 30, 31, 50, 51)

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68. The term “Variable Annuity Guaranteed Living Benefit” or “VAGLB” is a guaranteed benefit providing, or resulting in the provision that, one or more guaranteed benefit amounts payable or accruing to a living contractholder or living annuitant, under contractually specified conditions (e.g., at the end of a specified waiting period, upon annuitization, or upon withdrawal of premium over a period of time), will increase contractual benefits should the contract value referenced by the guarantee (e.g., account value) fall below a given level or fail to achieve certain performance levels. Only such guarantees having the potential to provide benefits with a present value as of the benefit commencement date that exceeds the contract value referenced by the guarantee are included in this definition. Payout annuities without minimum payout or performance guarantees are neither considered to contain nor to be VAGLBs. (Used in VM-21)

69. The term “variable life insurance policy” means a policy that provides for life insurance the amount or duration of which varies according to the investment experience of any separate account or accounts established and maintained by the insurer as to the policy. (Used in VM-20)

70. The term “working reserve” is the assumed reserve used in the projections of Accumulated Deficiencies supporting the calculation of the Scenario Greatest Present Values. (Used in VM-21)

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