

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.
**American Academy of Actuaries' Life Reserves Work Group
Aggregation of mortality segments for the purpose of determining credibility.**
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 (January 1, 2018 edition), with NAIC Adoptions through August 8, 2017. Location of change: VM-20 Section 9.C.4.b**
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.): **Please see below.**
4. State the reason for the proposed amendment? (You may do this through an attachment.)

1. VM-20 requires companies to determine separate prudent estimate mortality assumptions (i.e., separate "mortality segments") for groups of policies that the company expects will have different mortality experience, such as male vs. female, smoker vs. non-smoker, preferred vs. standard, etc. (Section 9.C.1.a).
2. A company may issue a variety of policies using the same or a similar marketing process and the same or a similar underwriting process.
3. The current wording in VM-20 (Section 9.C.4.b) states:

"Credibility may be determined at either the mortality segment level or at a more aggregate level if the mortality for the sub-classes (mortality segments) was determined using an aggregate level of mortality experience.

A single level of credibility shall be determined over the entire exposure period, rather than at each duration, within the exposure period. This overall level of credibility will be used to:

- i. Determine the prescribed margin for company experience mortality rates.
- ii. Determine the grading period (based on the credibility percentage shown in column (1) in the applicable table in Section 9.C.6.b.iii) for grading company experience mortality rates into the applicable industry basic table."

The existing reference in Section 9.C.4.b makes it clear that to determine credibility at an aggregate level, the company must determine the mortality at this aggregate level. This is helpful, **but additional VM language AND accompanying guidance is needed to assist companies in determining when experience from different mortality segments may be aggregated.**

The language that is being proposed to be moved to a new Section 9.C.4.c is merely a geography change intended to separate how the credibility is used (in this new section) from how it is determined (in Section 9.C.4.b). The language is unchanged in order to preserve how credibility margins are currently being applied across exposure periods and to preserve how credibility and the Sufficient Data Period (SDP) are currently being used to determine how company mortality grades into industry tables.

* 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 |
|-----------------|-------------------|-------------|------------|
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| Notes: | | | |

- b. Credibility may be determined at either the mortality segment level or at a more aggregate level. ~~if the mortality for the sub-classes (mortality segments) was determined using an aggregate level of mortality experience.~~

Experience for different mortality segments may be aggregated if:

- i. The company based its mortality on the aggregate experience and then used a methodology to subdivide the aggregate class into various sub-classes or mortality segments;
- ii. All mortality segments to be aggregated were subject to the same or similar underwriting processes; and
- iii. The mortality segments were sold by similar distribution systems and to similar market segments.

Underwriting processes that utilize new methods, but which are expected to produce similar mortality, are considered to be similar to previously established underwriting processes if these expectations regarding mortality are supported in the VM-31 actuarial report by medical, clinical, actuarial, or industry studies; predictive analytics or statistical analyses; or modeled demonstrations.

If the distribution system or marketing segment for a mortality segment differs from those of the other mortality segments within an aggregate, the mortality and credibility may still be determined at an aggregate level if the company expects mortality experience of the combined segments to be similar to that of the aggregate experience.

If the company determines mortality and credibility at an aggregate level, then the future mortality experience of each of the mortality segments within the aggregate shall be studied separately and the emerging results for each of these segments shall be presented ~~within~~ the VM-31 actuarial report.

Guidance Note: The intent of this section is to allow credibility for different types of life insurance products (such as term, whole life, universal life (UL), etc.) and different underwriting classes within these product types, but not guaranteed issue, simplified issue or similarly “limited”- underwritten products, to be determined at an aggregate level if these products are subject to the same or similar underwriting processes and are sold by similar distribution systems and to similar market segments.- In addition, the intent is to allow the mortality experience of products, such as corporate- and bank-owned life insurance (COLI and BOLI) products, for which the company expects mortality experience will be similar to that of fully underwritten products, to be aggregated with that of the fully underwritten products for credibility purposes.

- c. A single level of credibility shall be determined over the entire exposure period, rather than at each duration, within the exposure period. This overall level of credibility will be used to :
- i. Determine the prescribed margin for company experience mortality rates.
 - ii. Determine the grading period (based on the credibility percentage shown in column (1) in the applicable table in Section 9.C.6.b.iii) for grading company experience mortality rates into the applicable industry basic table.