AMERICAN ACADEMY *of* ACTUARIES

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October 6, 2016

Dale Bruggeman
Chair, Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners

Dear Mr. Bruggeman,

The Tax Work Group of the American Academy of Actuaries[1] Life Practice Council appreciates the opportunity to comment on Issue Paper No. 15X concerning the implementation of principle-based reserving.

We propose two sets of changes. The first is to paragraph 14 and the second affects paragraphs 8 and 11.b.

Our first proposed change concerns Paragraph 14, Companywide Exemptions.

This is our proposed rewrite:

14. *Not all companies will be required to apply the PBR reserving methodology. In other words, some companies will be permitted to use the Commissioners' Reserve Valuation Method (CRVM) as defined prior to the adoption of PBR. PBR includes what is termed a companywide exemption. The premium threshold for this "so-called" small company exemption is $300 million per year for the legal entity and less than $600 million for the associated group, as long as the group meets the risk-based capital (RBC) requirements and other exemption thresholds. This exemption allows a reporting entity to continue to use CRVM as defined prior to the adoption of PBR. Therefore, not all companies will be applying the same reserving methodology.*

[1]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.

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We are proposing this change to emphasize that under certain conditions, CRVM as defined prior to the adoption of PBR—including after the PBR three-year transition period—remains an acceptable definition of CRVM.

Our second proposed change concerns the description of PBR in paragraphs 8 and 11b. Those descriptions should use wording that is consistent with the definition in the Valuation Manual.

This is our proposed rewrite of paragraph 8:

8. *Under PBR, companies will hold a reserve using prescribed factors plus the excess, if any, over that reserve of the greater of a) the reserve based on a single economic condition, computed using justified company experience factors for mortality, expenses and policyholder behavior and b) the reserve based on a wide range of future economic conditions, computed using justified company experience factors for mortality, expenses and policyholder behavior.*

This is our proposed rewrite of paragraph 11.b:

11.b. *The PBR methodology requires the booking of a reserve using prescribed factors plus the excess, if any, over this reserve of the greater of the deterministic reserve and the stochastic reserve held on a per contract basis*.

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If you have any questions or would like to further discuss these topics, please contact Amanda Darlington, life policy analyst, at darlington@actuary.org.

Sincerely,

Barbara Gold
Tax Work Group
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