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May 25, 2021

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

**Re: APF 2020-10**

Dear Mike,

The Life Reserves Work Group (LRWG) of the American Academy of Actuaries[1] is pleased to have the opportunity to submit the following comments regarding exposed amendment proposal form (APF) 2020-10, which addresses inclusion of future mortality improvement (FMI) into principle-based reserving (PBR) valuation. The exposure specifically asks that comments address whether the "may" language proposed for 9.C.7.f and 9.C.3.g should be changed to "shall."

The LRWG strongly agrees with the supporting rationale of this APF—namely that the reserve requirements in the current Valuation Manual exceed moderately adverse conditions in not allowing FMI to be incorporated into mortality assumptions.

We believe that the APF, as proposed, provides several protective "guardrails":

- a prescribed margin that must be applied by the actuary to the promulgated FMI rates;
- a process whereby LATF would review and approve any periodic proposed FMI scale updates before they become effective and used in valuation;
- periodic studies which ensure that the FMI scale reflects recent trends, because PBR assumptions are required to be current, relevant, and credible; and
- a "bi-directional" structure in which the FMI scale could increase reserves if the underlying experience were to show slowing or negative improvement and lower reserves if the underlying experience were to show increasing or positive improvement.

The LRWG believes such a "bi-directional" impact works toward the overall goal of a principle-based valuation system producing "right-sized" reserves.

One might think that simply inserting "shall" language into sections 9.C.7.f and 9.C.3.g would be sufficient to accomplish the goal of including unfavorable FMI because this would require the actuary to incorporate FMI if it tended to raise reserves, while "may" language would not.

[1] The American Academy of Actuaries is a 19,500-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.

We believe the situation is more complex, because using only "shall" language would not permit the actuary to ignore FMI if including its impacts produced lower mortality than what would be considered a prudent estimate for the insurer's situation.

We do suggest rewording sections 9.C.7.f and 9.C.3.g to use "shall" language if incorporating FMI increases reserves and use "may" language if incorporating FMI would reduce reserves. In doing so, if the FMI scale were clearly an improvement to mortality rates, the actuary would not need to perform extra work to effectively hold a higher reserve than required. We recognize that an actuary could raise the margin beyond the prescribed level to 100% of the applicable FMI scale so as to eliminate the beneficial impact of FMI. Further, we recognize that the actuary could point to Section 2.G and use a "modeling simplification" that ignores FMI, as doing so would increase reserves. Use of a Section 2.G modeling simplification, however, would require the actuary to provide additional demonstrations and documentation.

To summarize, we believe the inclusion of FMI in the Valuation Manual, as described in this APF is a positive move. We suggest rewording sections 9.C.7.f and 9.C.3.g to use "shall" if FMI increases reserves and use "may" if FMI decreases reserves.

Thank you for your consideration. Please contact Khloe Greenwood, the Academy's life policy analyst, with any questions at greenwood@actuary.org.

Leonard Mangini, MAAA, FSA
Chairperson, Life Reserves Work Group
American Academy of Actuaries