

PBR: VM-31 as Seen by Regulators

December 12, 2025—12 to 1:30 p.m. EST

Academy Webinar

Presenters

Moderator

Thomas Reedy, MAAA, FSA – California

Presenters and Q&A

James Beall, MAAA, FSA – California

Seong-min Eom, MAAA, FSA, PRM – New Jersey

Rachel Hemphill, Ph.D., MAAA, FSA, FCAS – Texas

Elaine Lam, MAAA, FSA, CERA – California

Ben Slutsker, MAAA, FSA – Minnesota

Agenda

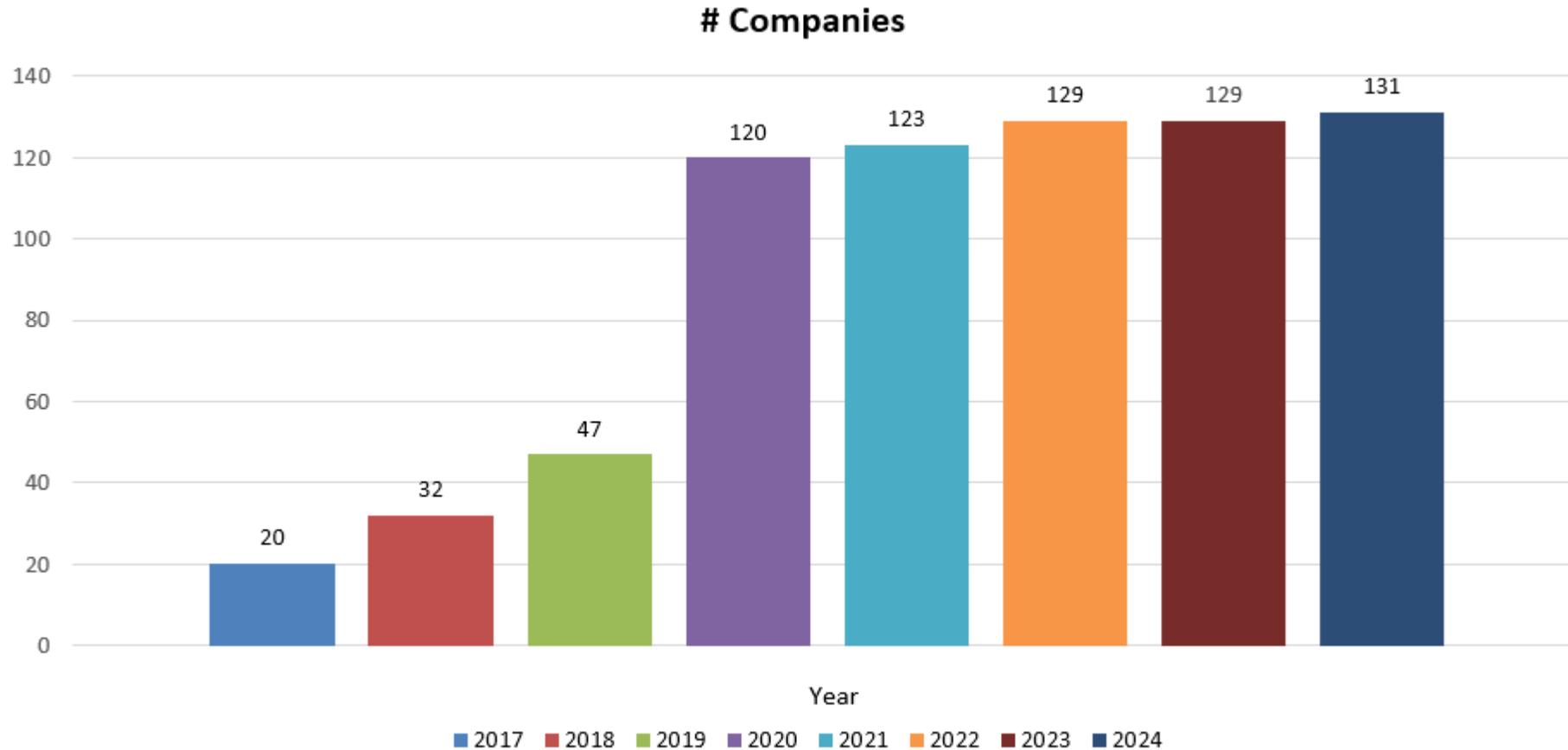
1. Life PBR Statistics
2. Year-end 2024 PBR Review Observations
 - Asset-related
 - Liability-related
 - Governance and Reporting
3. Knowledge Statements
4. Other Related Topics – GOES, AG 53, AG 55
5. VM-22: PBR for Non-Variable Annuities
6. New *Valuation Manual* Amendments for 2025 and 2026
7. Q&A

Life PBR Statistics

James Beall, MAAA, FSA

Actuary Senior, Office of Principle-Based Reserving
California Department of Insurance

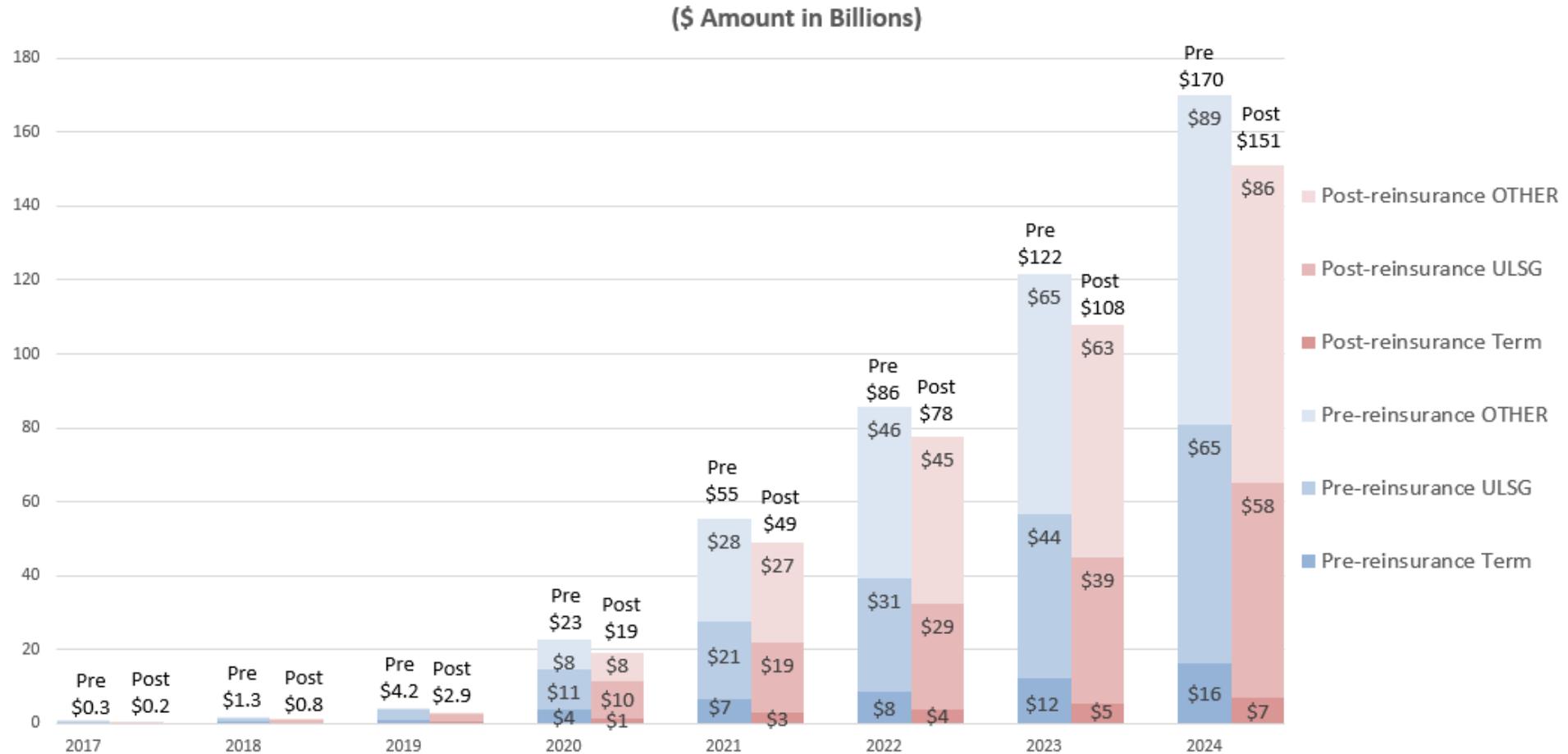
Number of Life PBR Companies by Year



Source: VM-20 Reserves Supplements as filed with the NAIC

* CA Licensed Companies Only

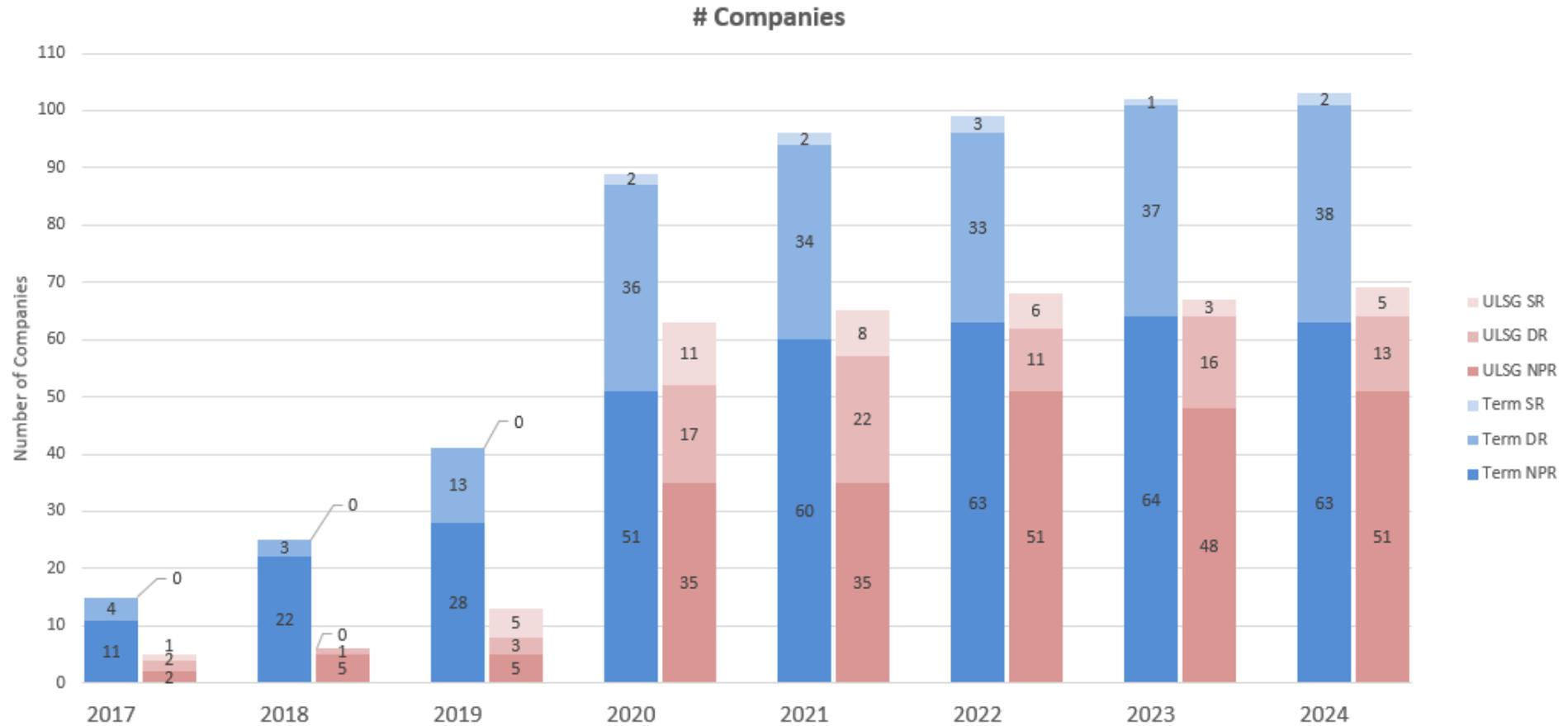
Amount of Life PBR Reserves by Year



Source: VM-20 Reserves Supplements as filed with the NAIC

* CA Licensed Companies Only

Number of Companies by Dominant Reserve (post-reinsurance-ceded)



Source: VM-20 Reserves Supplements as filed with the NAIC

* CA Licensed Companies Only

PBR Statistics

- Life PBR statistics were gathered from company filings of the VM-20 Reserves Supplement to the NAIC and states of domicile
- Updated Supplements for VM-21 and new Supplements for VM-22 will allow us to enhance statistics gathering for annuities PBR in the future

Year-end 2024 PBR Review Observations: Asset-Related

Seong-min Eom, MAAA, FSA, PRM

Chief Actuary, Life and Health

New Jersey Department of Banking and Insurance

Revenue Sharing Update

The [2026 Edition of the *Valuation Manual*](#) includes the following for the recently adopted VM-22:

- Revenue Sharing: If applicable, projections of accumulated deficiencies may include income from projected future revenue sharing, net of applicable projected expenses (net revenue-sharing income) by following the requirement set forth in VM-21 Sections 4.A.5.a through 4.A.5.f.

Revenue Sharing Update (continued)

The recently adopted APF 2025-05 modifies the guidance notes under VM-20 Section 9.G.8 and VM-21 Section 4.A.5 to provide clearer definitions and examples of what constitutes “contractually guaranteed” revenue-sharing income:

- Provides additional examples of provisions in a revenue-sharing agreement that would prevent the revenue-sharing income from being considered “contractually guaranteed.”
- Specifically, the new examples highlight provisions where revenue-sharing payments depend on the status or balance of a particular plan or fund, making the income non-guaranteed.

Reflecting the impact of elevated volatility on the cost of hedging

The cost of hedging is directly influenced by the level of market volatility, as higher volatility leads to greater uncertainty in the value of the guarantees, requiring more expensive hedging strategies to mitigate risk.

Reflecting the impact of elevated volatility on the cost of hedging (continued)

Some considerations for reflecting the impact of elevated volatility in modeling the company's current and projected views of hedge prices:

- Impact on the assumed profit spread (i.e., difference between income earned and credited) in reserve calculation.
- Would the company be able to pass to consumer the elevated cost of hedging through changes to non-guaranteed elements (NGEs)?
- Are the company's NGE projections reflecting the prudent estimates of the impact of potentially higher hedging costs ?
- These considerations may apply to PBR reserving with hedging for the following products:
 - For Life PBR – indexed universal life (IUL)
 - For Annuities PBR – index-linked products or products with guaranteed living benefits (GLBs)

E-Factor Determination Considerations

- Since CTE70 (best efforts) may overstate the impact of the hedging strategy, an error adjustment is reflected in the determination of the SR under VM-21 and VM-22:

$$SR = \text{CTE70 (best efforts)} + E \times \max[0, \text{CTE70 (adjusted)} - \text{CTE70 (best efforts)}]$$

where $E = \text{Error-Factor (or E-Factor)}$

- Company specifies *E-Factor* within range of 5% – 100% based on:
 - Amount of experience available
 - Degree and nature of any change to the hedge program
 - Ability of model to capture all risks and properly reflect the parameters of the hedging strategy:
 - 5% is permitted **ONLY** if the model used to determine CTE70 (best efforts) effectively reflects **ALL** parameters of the hedging strategy
 - Constraints based on specified criteria (see next slide)

Criteria for E-Factor Determination

Criteria	E-Factor
<ul style="list-style-type: none"> • Material change in strategy <p>AND</p> <ul style="list-style-type: none"> • Less than 12 months of experience is available • No robust mock testing <p>OR</p> <ul style="list-style-type: none"> • Less than 3 months of experience is available 	<p><i>E-Factor = 100%</i></p>
<ul style="list-style-type: none"> • Material change in strategy • Less than 3 months of experience is available • New hedging strategy introduced due to new product or newly acquired block • Robust mock testing is performed 	<p><i>E-Factor ≥ 30%</i></p>
<ul style="list-style-type: none"> • Material change in strategy • Less than 3 months of experience is available • Robust mock testing is performed • Prior regulatory approval obtained <p>OR</p> <ul style="list-style-type: none"> • Change in strategy is minor refinement 	<p><i>E-Factor ≤ 100%</i> subject to VM-21 / 22 Section 9.C.4 minimum</p> <p>Provided there is an appropriate prudent estimate to account for additional uncertainty in anticipated hedging experience beyond that of a robust hedging program already in existence</p>

E-Factor Determination Considerations (continued)

- Per VM-31, VM-21 / VM-22 PBR report must include:
 - Discussion of approach and rationale for *E-Factor* used
 - Rationale must consider robustness of the documentation outlining the future hedging strategy
 - Formal back-testing results, the scope of which varies based on hedge cash flow modeling approach: explicit method vs implicit method vs other method
- Documentation of best practices also encompass:
 - Validation of analysis used to develop *E-Factor*
 - Sensitivity testing of alternative *E-Factor* candidates
 - Governance oversight, including review and approval procedures

Negative IMR

- INT 23-01: Insurers with [RBC > 300% x Authorized Control Level] may treat negative IMR (interest maintenance reserve) as admitted asset subject to cap of 10% of general account capital and surplus
- Treatment of negative IMR **must** be consistent between Asset Adequacy Testing per VM-30 and PBR per VM-20, VM-21, and VM-22:
 - Full amount of any negative IMR that is admitted **must** be used in both Asset Adequacy Analysis and PBR
 - Any negative IMR that is admitted **must** be fully allocated by line of business and cannot be allocated to surplus
 - Amount of starting assets **must** be reduced by absolute value of negative IMR (which is effectively treated as a non-interest-bearing asset)

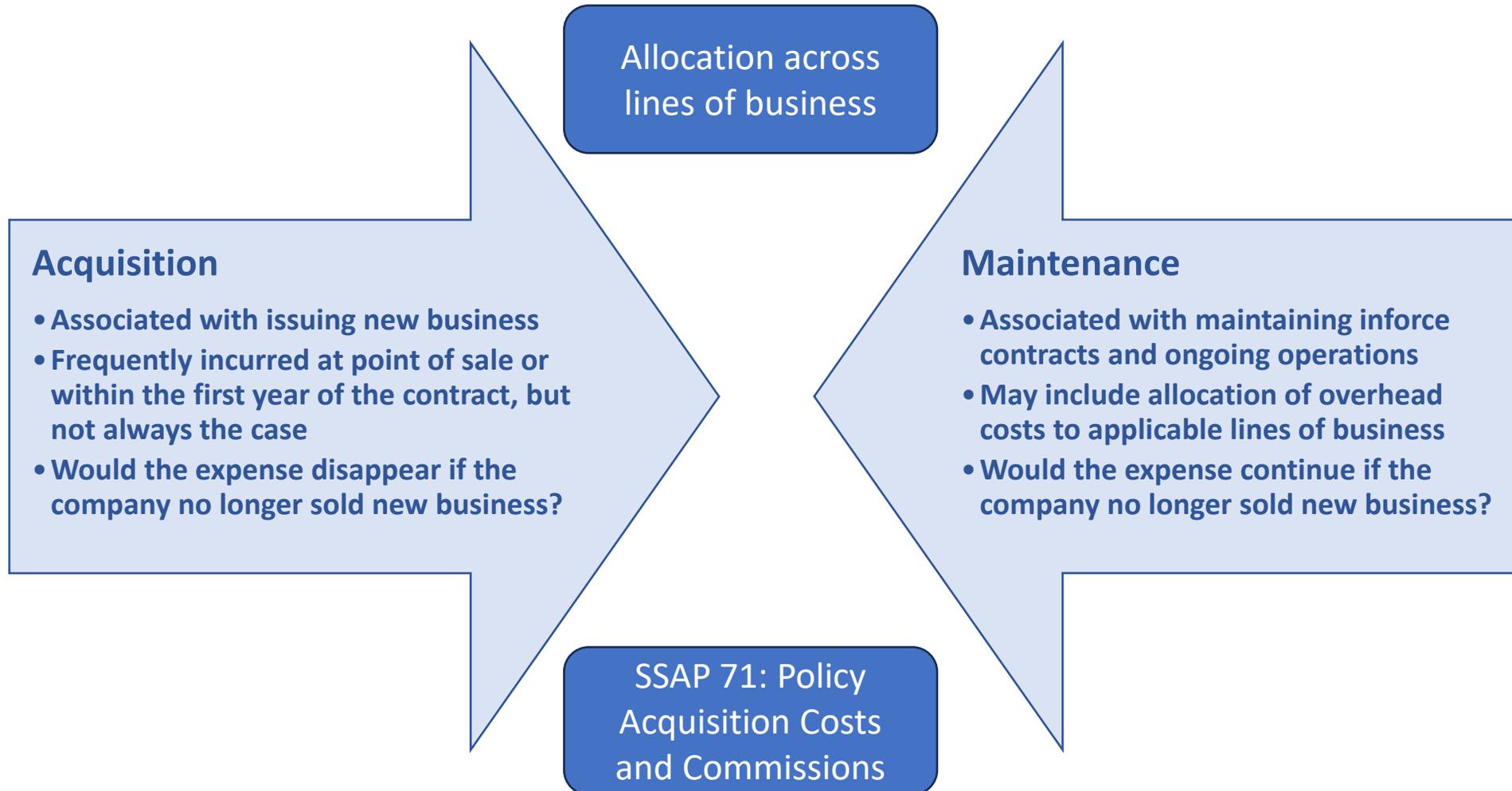
Year-end 2024 PBR Review Observations: Liability-Related

Ben Slutsker, MAAA, FSA

Director of Life Actuarial Valuation

Minnesota Department of Commerce

Allocation of Expenses



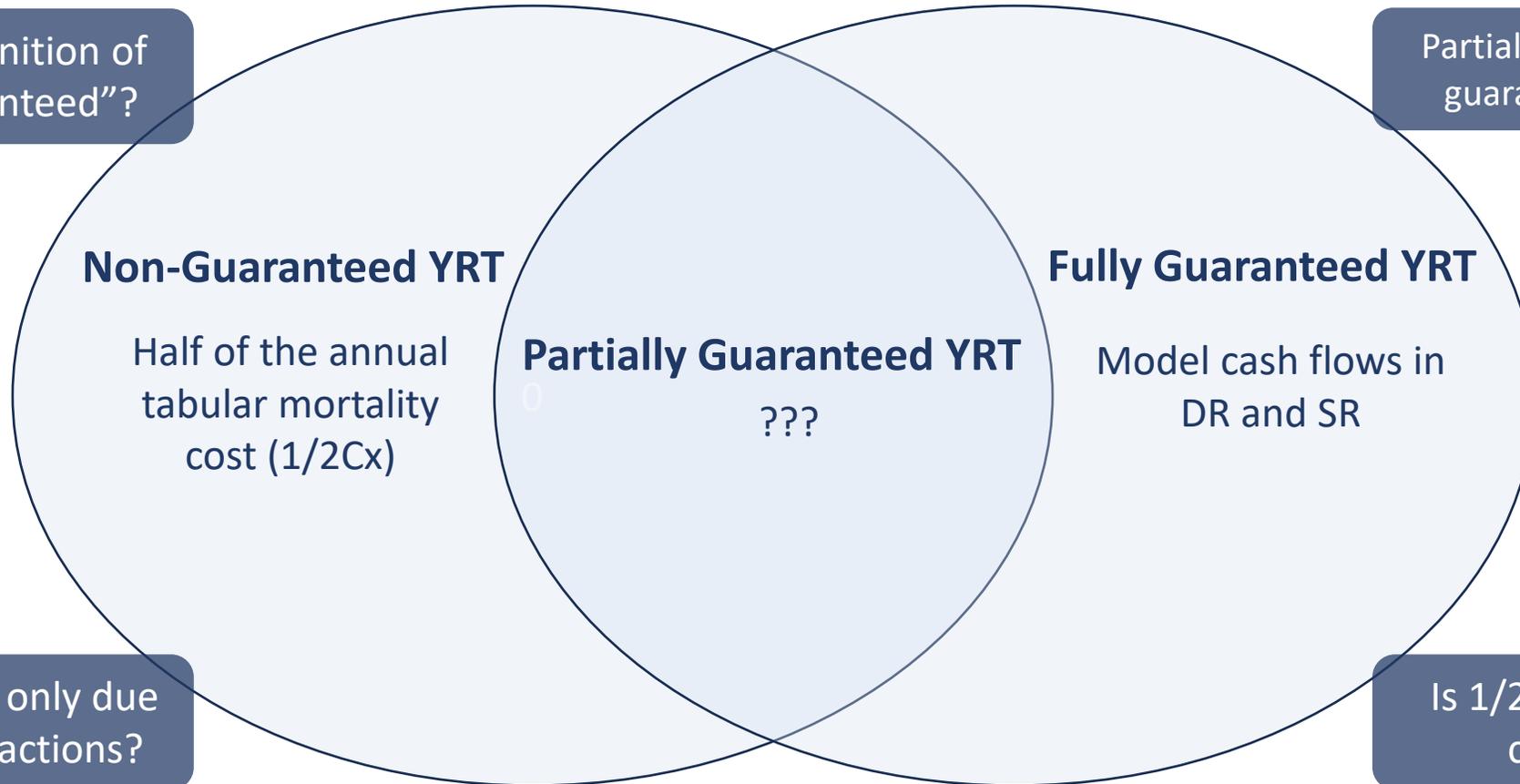
Expense Inflation

- Reviewers have observed that company expense inflation assumptions are frequently tied to market factors, such as the Consumer Price Index (CPI)
- However, unit costs for some companies have increased significantly over the past 5-10 years
- Is the expense inflation assumption based solely on market factors or is there consideration of company-specific experience, trends, or other factors?

Reinsurance: Partially Guaranteed Yearly Renewable Term (YRT)

What is the definition of “partially guaranteed”?

Partial guarantees are non-guaranteed in VM today



Non-guaranteed only due to the cedents' actions?

Is 1/2Cx appropriate to currently use?

Separate issue for coinsurance with experience refunds: are sufficient details being provided to review PBR assumptions and credit for reinsurance?

Non-U.S. Mortality

- LATF did not approve any non-U.S. mortality tables this year for VM-20
 - Due to a combination of time constraints with year-end approaching, and lack of sufficient support included in LATF requests for approval
- Unless the non-U.S. mortality table is approved, the company should follow existing *Valuation Manual* requirements
 - Companies with non-U.S. business to use U.S. mortality tables, increased as necessary when the non-U.S. mortality is anticipated to exceed U.S. mortality
- LATF adopted revisions to the *Valuation Manual* to address this matter
 - Institutes a submission deadline for requests to LATF to approve non-U.S. mortality tables
 - Requires minimum standards for supporting materials for the non-U.S. mortality request
 - LATF leadership is working with the Society of Actuaries to better understand non-U.S. mortality tables and mortality improvement, with an intent to provide educational sessions separate from any request

Year-end 2024 PBR Review Observations: Governance and Reporting

James Beall, MAAA, FSA

Actuary Senior, Office of Principle-Based Reserving
California Department of Insurance

Attribution Analysis

- (Life Summary) VM-31 Section 3.C.3: Changes in Reserve Amounts
 - “A description of the changes in reserve amounts from the prior year to the current year and why the changes are reasonable.”
- (VA Summary) VM-31 Section 3.E.3: Changes in Reserve Amounts
 - “A description of any material changes in reserve amounts from the prior year and an explanation for the changes, including the results of any supporting analysis such as an attribution analysis or waterfall chart.”
- Although the requirement language differs slightly, attribution analysis is a best practice for both Life PBR and VA PBR in the VM-31 Report.

Attribution Analysis (continued)

- Increasing the granularity of steps helps reviewers understand the sources of change. Best practice is to separately list and itemize impacts such as:
 - New business
 - Aging of inforce
 - Individual assumption changes (e.g., mortality, lapses, other policyholder behaviors, expenses, etc.)
 - Key model and/or method changes
 - Economic and/or asset changes
 - Any other changes (or unexplained changes)
- For Life PBR, can also perform separate attribution analysis for each reserving category (Term, ULSG*, Other) and/or each reserve component (NPR, DR, SR)^
- Display analysis in table format for ease of summary and explanation

*ULSG – Universal Life with Secondary Guarantee

^NPR – Net Premium Reserve; DR – Deterministic Reserve; SR – Stochastic Reserve

Simplifications

- (Life PBR) VM-20 Section 2.G allows for simplifications:
 - “A company may use simplifications, approximations and modeling efficiency techniques to calculate the NPR, the DR and/or the SR...”
- Companies should assess the materiality and appropriateness of simplifications, approximations and modeling efficiency techniques for each reserve calculation in isolation (whether NPR, DR, or SR)
 - NPR being the dominant reserve does not, by itself, justify a simplification and/or make all aspects of the DR or SR calculation immaterial
 - Best practice approaches for each reserve component should be in place, as the dominant reserve may change over time
- Companies should document all simplifications with appropriate justification in the VM-31 Report
 - (Life Report) VM-31 Section 3.D.11.j requires “a statement that the required VM-20 Section 2.G demonstration is available upon request...”
 - Talk to your regulator – issues of materiality and simplifications may be unique

New Disclosure Items for Year-End 2024

- Commonly missed disclosure items in YE2024 VM-31 Reports:
 - (Life Report) VM-31 Section 3.C.11: Reconciliation of Reported Values
 - Demonstration of reconciliation is needed, not just a statement that the values reconcile
 - (Life Report) VM-31 Section 3.D.6.f: Risk Management
 - 5 sub-sections (i. to v.) needed for future hedging strategies (e.g., IUL hedging)
 - (Life and VA Reports) VM-31 Sections 3.D.11.j and 3.F.2.f: Aggregate Impact of Approximations, Simplifications and Modeling Efficiency Techniques
 - Need to address the aggregate impact of such techniques
- Reviewers stress the importance of companies to perform a review of all changes to the *Valuation Manual* every year:
 - Should be part of formal governance process for all companies
 - New disclosure requirements are as important as new calculation requirements
 - Do not wait for regulator feedback to be notified of changes

Knowledge Statements

Rachel Hemphill, Ph.D., MAAA, FSA, FCAS

Chief Life Actuary

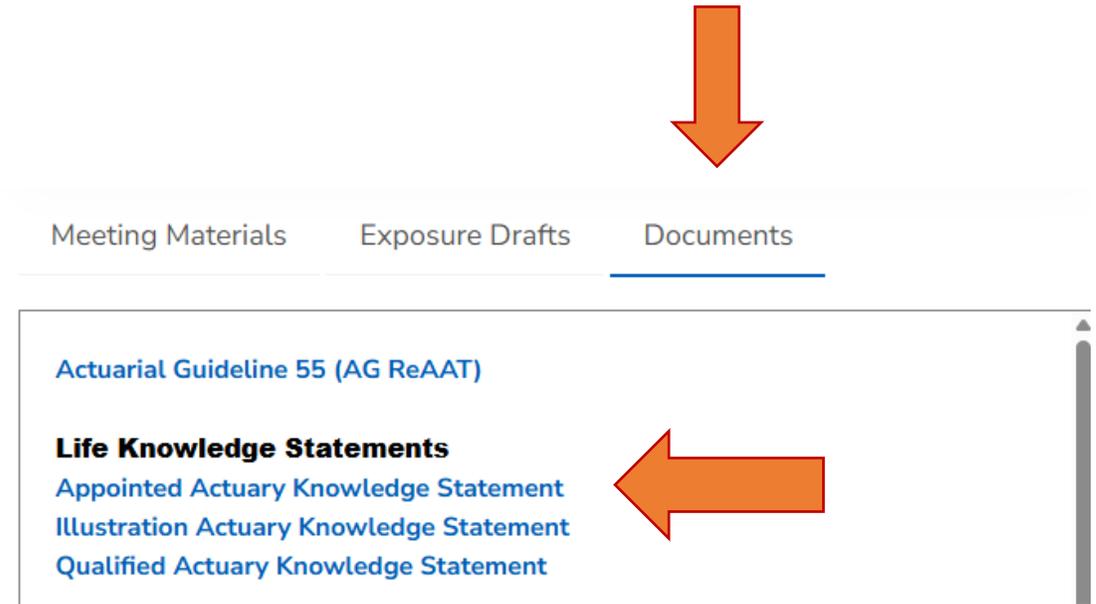
Texas Department of Insurance

Knowledge Statements

Can be found on the Life Actuarial (A) Task Force page, under “Documents”.

Links to Knowledge Statements:

- [Appointed Actuary](#)
- [Qualified Actuary](#)
- [Illustration Actuary](#)



Knowledge Statements (continued)

VM-01 definitions of Qualified Actuary and Appointed Actuary reference the adopted Knowledge Statements, starting in the *2026 Valuation Manual*:

Knowledge statements for PBR qualified actuaries have been adopted by LATF and are available on the NAIC website, at <https://content.naic.org/sites/default/files/inline-files/Life%20Knowledge%20Statements%20-%20Qualified%20Actuary%20-%20Final%20%281%29.docx>.

Knowledge statements for appointed actuaries have been adopted by LATF and are available on the NAIC website, at <https://content.naic.org/sites/default/files/inline-files/Life%20Knowledge%20Statements%20-%20Appointed%20Actuary%20-%20Final%20%281%29.docx>.

Appointed Actuary

Knowledge statements apply to the Appointed Actuary signing the Actuarial Opinion

Actuarial
Opinion Scope

Law, Statutes
and Regulations

Policy Forms
and Coverages

Principles of
Insurance and
Underwriting

Reserves

Other
Considerations

Reinsurance

Professionalism
and Business
Skills

Qualified Actuary

Knowledge statements apply to the Qualified Actuaries submitting the VM-31 PBR Actuarial Report

Policy Forms
and Coverages

Law, Statutes
and Regulations

Principles of
Insurance and
Underwriting

Reserves and
Assets

Reinsurance

Other
Considerations

Professionalism
and Business
Skills

Illustration Actuary

Knowledge statements apply to Illustration Actuaries submitting a certification that the illustrated scales of non-guaranteed elements meet the requirements of the Life Insurance Illustrations Model Regulation (Model 582)

Policy Forms, Coverages and Features	Law, Statutes, Regulations, and Actuarial Guidelines	Principles of Insurance and Risk Selection	Development and use of Experience Factors	Other Considerations	Professionalism and Business Skills
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Other Key Related Topics

Rachel Hemphill, Ph.D., MAAA, FSA, FCAS

Chief Life Actuary

Texas Department of Insurance

Ben Slutsker, MAAA, FSA

Director of Life Actuarial Valuation

Minnesota Department of Commerce

GOES Project History

Life Actuarial (A) Task Force(LATF)
 Financial Stability (E) Task Force (FSTF)
 Generator of Economic Scenarios (E/A) Subgroup....(GOES SG)

In 2017, the American Academy of Actuaries notified LATF that it did not have the resources to maintain the prescribed economic scenario generator (ESG), except in their current form until a suitable replacement could be found.

The FSTF noted a potential deficiency in the prescribed ESG related to a limited reflection of long periods of low (or negative) interest rates and requested the VAWG assess risk to insurers.

After extensive work with regulators and ESG subject matter experts, the NAIC issued an RFP for a new ESG in March 2020. Conning was selected as the ESG vendor in September 2020.

The NAIC ESG Field Test began in June 2022 and most results were turned in by August 2022. VM-20, VM-21, C3 Phase II, and C3 Phase I field test results were shared at public LATF meetings in 2023.

Participants have tested a revised set of scenarios calibrated according to regulator-defined acceptance criteria. Results have been shared in confidential participant-to-regulator meetings.

APF 2025-04 was adopted at the Joint Meeting of the NAIC Executive (EX) Committee and Plenary on August 13th.

AAA Notifies NAIC

Low for Long

RFP and Vendor Selection

First Field Test

Second Field Test

VM Adoption



APF 2025-04 Highlights

Effectuate GOES

- GOES will be effective for VM-20, VM-21, and VM-22 starting 1/1/26

Non-Prescribed Generators

- Non-prescribed generators are allowed in VM-20, VM-21, and VM-22 if they do not materially understate or bias downward reserves or TAR

SET Updates

- Moving from best- to prudent-estimate basis for SERT
- Allowing use of passing SERT results from past 3-years

Scenario Picking

- Scenario selection methodology no longer prescribed
- Companies must meet approximations, simplification, and modeling efficiency technique requirements

Phase-In

- Companies can elect 36-month optional phase-in
- Phase-in applies to VM-20 and VM-21, not VM-22

Governance

- *Valuation Manual* references the GOES model governance framework and creates process for LATF to review and approve

Governance Highlights



Governance and Stakeholder Roles

- Clearly defined Roles, Responsibilities, and Sign-Offs



Model Definitions

- Model Risk Rating, Inventory



Model Selection and Validation

- Stylized Facts, Acceptance Criteria, Model Office Testing, Input Validation, Output Validation

Governance Highlights (continued)



Model Updates and Review

- Monthly Updates, Annual Updates, 5-Year Recalibrations, and any necessary Off-Cycle Updates including Oversight



Process for Handling Model Findings and Model Change Management

- Model Findings Inventory, Routine Changes, Model Enhancements, Model Corrections, Model Change Documentation Template, NAIC Analysis and Review Tools



Documentation Requirements

- Documentation on Conning website
- Additional documentation available for companies by signing NDA
- If there are concerns on proprietary aspects, this can be brought to NAIC and Conning will work with NAIC to be able to discuss any concerns that need to be resolved on public calls

Actuarial Guideline LIII (AG 53)

What: Asset-related disclosures for most life insurers over a size threshold

Main purpose: Help ensure claims paying ability even if complex assets do not perform as expected

Above certain yields there should be assumed an **offsetting risk**:

- ▶ Help ensure company models are robust enough to capture risks

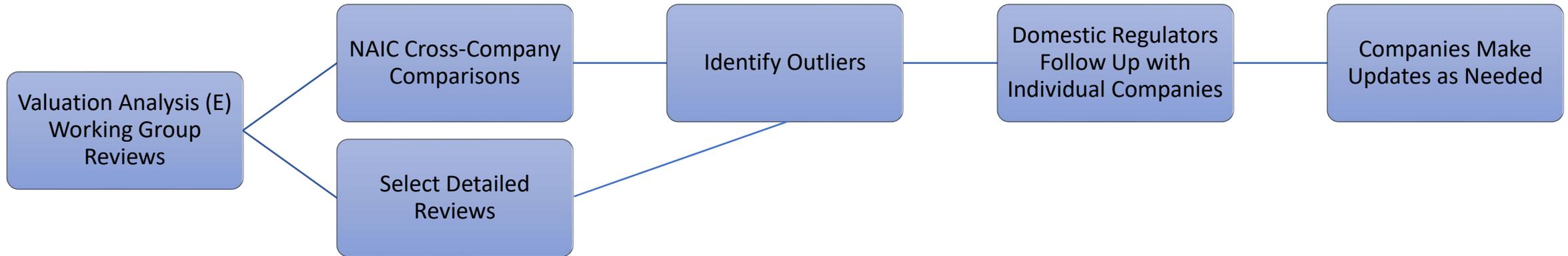
An **opportunity** for companies to tell their stories:

- ▶ Complex assets & associated risks
- ▶ How their cash-flow testing models address those risks

Other areas of focus:

- ▶ Reinsurance collectability
- ▶ Tranche ratings for structured assets
- ▶ Internally-determined Fair Values
 - ▶ Payment in Kind

Actuarial Guideline LIII (AG 53) (continued)



Disclosure-based guideline both supports and relies on existing domestic regulator reviews and follow-ups. Has been effective but an ongoing process.

AG 53 process can be a template for AG 55 reviews.

Actuarial Guideline LV (AG 55)

1. Cash flow testing (CFT) analysis for cedents when reinsuring to non-VM-30 entities
 - Applies to transactions 2016 and later, with potential exemption requests for pre-2020
 - Subject to materiality thresholds
2. Attribution analysis between the pre-reinsurance reserve and post-reinsurance reserve
3. Disclosures and templates related to supporting analysis, assumptions, and risk identification

$$\text{CFT Starting assets} = \text{Retained Reserves} + \text{Reserves Held by Counterparty} - \text{Reserves Supported by "Guideline Excluded Assets"}$$

May also conduct an "alternative run" with higher starting assets, which may be based on collateral levels, with an appropriate amount removed for required capital

VM-22: PBR for Non-Variable Annuities

Ben Slutsker, MAAA, FSA

Director of Life Actuarial Valuation

Minnesota Department of Commerce

VM-22: Day 2 Items

Additional Standard Projection Amount (ASPA)

- Amendment adopted Sept. 2025
- Required ASPA if lack of credible assumptions
- Attribution analysis disclosure

Aggregation

- Exposure
- Currently permits aggregation between payout and deferred
- Continue criteria and which criteria?

Settlement Options

- Exposure
- Treatment of settlements/annuitizations
- PBR or formulaic?
- VM-V or CARVM¹ discount rates

Deposit-type Contracts

- Exposure
- Are any deposit-type contracts in scope of VM-22?
- Term certainties and definition
- VM II, Subsection 3

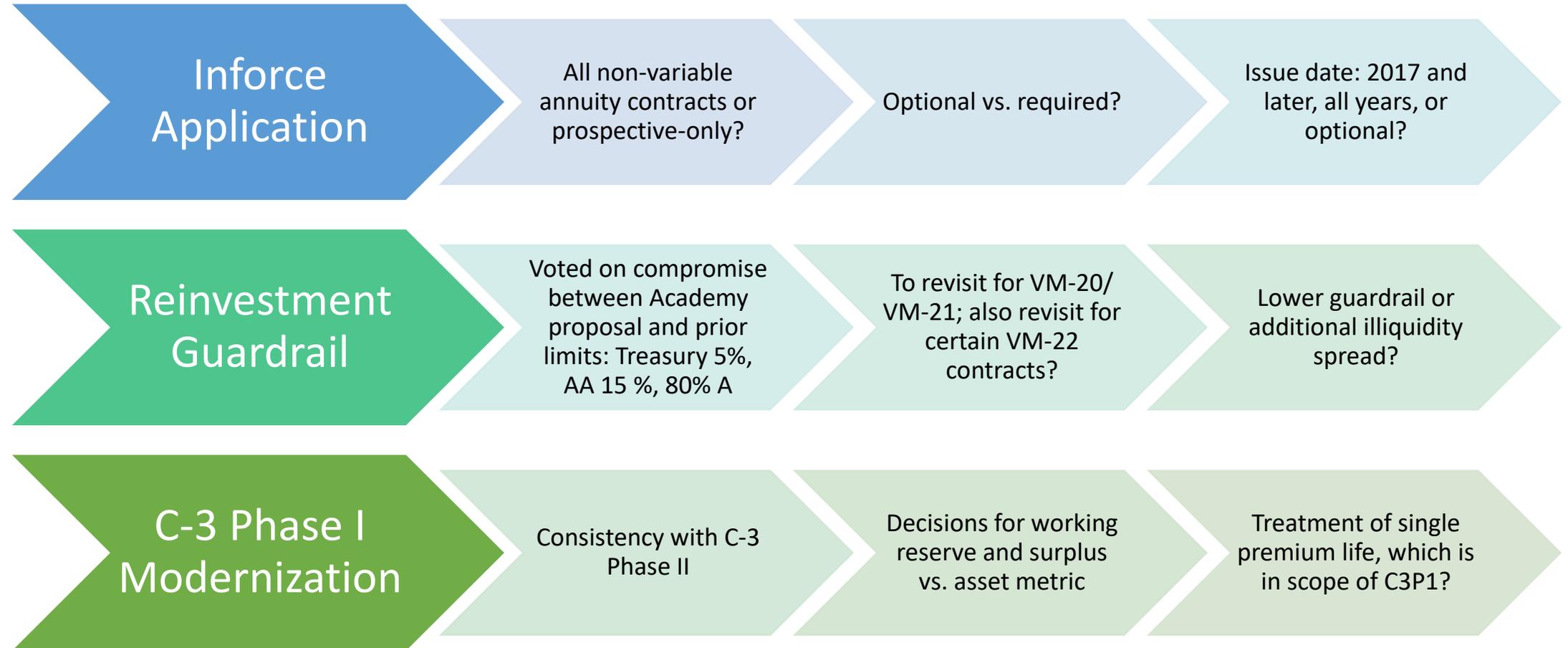
(1) Commissioners' Annuity Reserve Valuation Method

Annual Statement Exhibits and Blanks

	Current Y								
	SECTION A								
	1 Pre-Tax Interest Maintenan ce Reserve (PIMR)	2 Cash Surrender Value	3 Prescribed Projection Amount	4 CTE70 (adjusted)	5 CTE70 (best efforts)	6 Buffer Amount ²	7 Additional Standard Projection Amount	8 Stochastic Reserve	9 Number of Contracts
1. Post-Reinsurance-Ceded Reserve									
1.1. Fixed Annuities Deferred without Guaranteed Living Benefit.....									XXX
1.2. Indexed Annuities Deferred without Guaranteed Living Benefit.....									XXX
1.3. Individual Immediate and Deferred Income Annuities and Annuityizations.....									XXX
1.4. Structured Settlements.....									XXX
1.5. Pension Risk Transfer and Group Payout Annuities and Annuityizations.....									XXX
1.6. Longevity Reinsurance.....									XXX
1.7. Fixed Annuities Deferred - with Guaranteed Living Benefit.....									XXX
1.8. Indexed Annuities Deferred - with Guaranteed Living Benefit.....									XXX
1.9. Aggregate Write-Ins for Other Products									XXX
2. Total Post-Reinsurance-Ceded Reserve (Sum of Lines 1.1 through 1.9)									XXX

- VM-22 Supplement Blank developed based on VM-20 Supplement Blank, with corresponding instruction changes
- Supplement Part 1A (overview) and Part 1B (details) → Part 1B Section A (SR), Section B (DR), and Section C (pre-PBR CARVM)
- Consider necessary changes to other parts of the Annual Statement: Interrogatories, Exhibit 5, other related blanks

VM-22 Hot Topics



Longevity Reinsurance

Seong-min Eom, MAAA, FSA, PRM

Chief Actuary, Life and Health

New Jersey Department of Banking and Insurance

Longevity Reinsurance

- An agreement or reinsurance arrangement covering one or more group or individual annuity contracts where the insurance company assumes the longevity risk associated with periodic payments*
- Aggregation of Contracts for the DR and SR
 - The longevity reinsurance reserving category may not be combined with other reserving categories
 - The reserve for each longevity contract is floored at 2% of scheduled longevity benefits payable by the benefit provider within the next 12 months from the date of valuation
- Determination of DR and SR
 - The scenario reserve for any given scenario is floored at 2% of scheduled longevity benefits payable by the benefit provider within the next 12 months from the date of valuation
- Standard Projection Amount Mortality: 1994 GAM tables (defined in VM-M, Section 2.D.) with Projection Scale AA
- Credibility-Adjusted Table: longevity segment must be adjusted for mortality improvement

* Excludes agreements that are not treated as reinsurance under SSAP 61R

Capital Issues

- VM-22 introduces Principle-Based Reserving (PBR) for non-variable annuities
 - 1/1/2026 target effective date (3-year optional transition period)
 - Proposed reserving categories: payout annuities, accumulation annuities, and longevity reinsurance
- Longevity Reinsurance Reserving Category – covers reinsurance arrangements where an insurer assumes the longevity risk of periodic payments from immediate or deferred payout annuity contracts
 - PBR valuation assumptions tailored to company's particular profile and experience
 - Transition from CARVM formulaic reserves to PBR will result in more reserve variability
 - Longevity reinsurance deal counterparties could obtain materially different reserves (ceded vs assumed) under PBR framework
 - ***Need to ensure that sufficient reserves are held to meet liability/contractual obligations and cover longevity risk***
 - VM-22 reserve for each longevity reinsurance contract = floored at 2% of scheduled longevity benefits payable over the next 12 months (VM-22 Section 3.F.5)

Group Annuity Mortality Data Collection

- Revised APF 2024-12* amends VM-50 and VM-51 to accommodate collection of Group Annuity Mortality Experience Data
- VM-50:
 - NAIC is designated as the Group Annuity Mortality Experience Reporting Agent
 - Data collection kickoff of 1/1/2027
 - Statistical plan control totals will include record counts, claim counts, and claim amounts
 - Statistical plan reconciliation components include certificate counts, income payable, and statutory reserves
- VM-51:
 - New Section 3: Statistical Plan for Group Annuity Mortality
 - Scope encompasses fixed and variable group pension contracts; ongoing and terminated (closeouts) plans; guaranteed and non-guaranteed arrangements; direct business written by U.S. company covering lives in any country and reinsurance assumed for business outside U.S.
 - Companies REQUIRED to submit data will be selected by Life Actuarial (A) Task Force based on achieving a target level of ~90% of industry group pension mortality experience
 - Exemptions may be granted by the Experience Reporting Agent following consultation with domestic regulator
 - New Appendix 5: Group Annuity Mortality Data Elements and Format

* Public comment period on released exposure draft ends 02/09/2026

2025 Valuation Manual Updates

Rachel Hemphill, Ph.D., MAAA, FSA, FCAS

Chief Life Actuary

Texas Department of Insurance

Governance Updates

2024-01: VM-01 definition of “Qualified Actuary”

- Adopted removing the words “only”
- Requires Qualified Actuary to meet the Specific Qualification Standard with respect to their opening areas, including:
 - Basic education, by exam or self-study with a signed statement from another actuary qualified in the same area:
 - a) policy forms and coverages,
 - b) dividends and reinsurance,
 - c) investments and valuations of assets and the relationship between cash flows from assets and related liabilities,
 - d) statutory insurance accounting,
 - e) valuation of liabilities, and
 - f) valuation and nonforfeiture laws
 - CE requirements: 15 hours relative to topics (a)-(f), 6 organized

Governance Updates (continued)

2024-02: VM-G Governance in PBR Report

- Corrects an oversight in the VM, that VM-G documentation was being addressed in the PBR Report for VM-20 but not VM-21. Moved to Executive Summary, so that it was covered for all PBR. VM-G requirements including the reporting requirements outlined in VM-G always applied to both VM-20 and VM-21, but VM-21 PBR Reports were missing a statement that the reporting was available upon request.
- **Board** VM-G Section 2.A.5 (Board Meeting Minutes documenting review and actions undertaken by the board in all meetings where PBR is discussed)
- **Senior Management** VM-G Section 3.A.6 (Reporting to Board on infrastructure, risks, personnel expertise, governance)
- **Qualified Actuary** VM-G Section 4.A.3 (Summary report to board and senior management on valuation processes, PBR results, conservatism, materiality, and unusual issues or findings)

Life PBR Updates

- 2023-09: Historical Mortality Improvement (HMI) rates
 - Adopted change from “may” to “shall” reflect HMI.
 - Did not adopt allowance to have LATF require “considerations” for HMI, meaning LATF will need to continue requiring COVID to be reflected in FMI rather than HMI for SOA MI rates.
- 2023-13: Adding requirements for international mortality, as the *Valuation Manual* is mostly silent.
- 2024-04: Update for more recent (2021) CIA Term-to-100 lapse study for ULSG where CSV is minimal and the company does not have credible experience.

Variable Annuities PBR Updates

Standard Projection Amount requires ongoing maintenance, so VACRSG* developed APF 2024-07

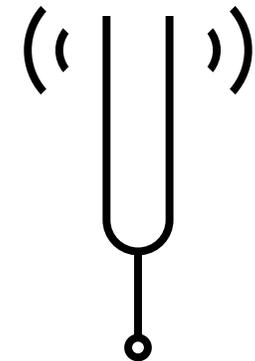
Updating three assumptions based on emerging experience:

Also create a section for full surrenders for ILVAs

Mortality, based on latest study. Fx factors applied to base table are differentiated by gender and when there are no guaranteed living benefits, by richness of the guaranteed death benefit

Expenses, to reflect inflation

Reflect lower deep in the money lapse experience



* Variable Annuities Capital and Reserve Subgroup

Variable Annuities PBR Updates (continued)

- 2024-08: Selection of VM-21 additional invested asset portfolio, clarifying allowable methodologies and reiterating that the alternative asset guardrail applies to reinvestments for the additional invested asset portfolio.
- 2024-09: IMR deducted from scenario reserve before CSV flooring, rather than being deducted from the aggregate reserves.

Clarifications

- 2023-08: Clarifying allocation of negative Interest Maintenance Reserve (IMR). Also adopted [IMR Guidance](#) and optional [IMR Template](#).
 - APF clarifies that any IMR that is not admitted should not be reflected in PBR or CFT.
 - IMR Guidance clarified that this same treatment should apply for year-end 2023 and 2024, based on the current requirements for an “appropriate” and “reasonable” allocation.
 - IMR template is responsive to a Statutory Accounting Principles Working Group request.
- 2023-11: Removed references to Risk-Based Capital (RBC) in VM-20 and VM-21 that are inconsistent with the purpose, scope, and intended use of RBC, consistent with improvements made in related Sections of VM-22.

Non-PBR Updates

- 2023-12: Clarify expectations on reflection of equity return volatility in VM-30 cash-flow testing.
 - Requires reflecting volatility of investment returns for equity-like assets in CFT, by methods such as:
 - Stochastic modeling of equity returns, with tail metric.
 - Up, down, and/or volatile equity return scenarios for each set of interest rate paths.
 - Projecting one or more market drops, taking into consideration future points at which cash-flow testing results could be vulnerable to market downturns.
 - Reflecting a level return assumption set equal to a tail risk metric, for example, setting investment returns to the average of the worst 30% of future scenarios, i.e., CTE70.
 - Regardless of method, need to support that it creates a moderately adverse result.

Non-PBR Updates (continued)

- 2024-10: VM-26 Credit Disability APF from HATF, removing the 12% increase to claim incidence rates based on more recent experience.
- 2024-06: Jumbo rates may be used for non-jumbo contracts, with domiciliary commissioner approval.
- 2024-05: Funding agreements, **optional** monthly rate determination, with domestic commissioner approval.

2026 Valuation Manual Updates

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Chief Life Actuary

Texas Department of Insurance

Major Updates

- 2025-11: Implementation of PBR for non-variable annuities, VM-22.
- 2025-04: Implementation of the new economic scenario generator, GOES.
- 2025-06: Definitions of Qualified Actuary and Appointed Actuary now reference the knowledge statements adopted by LATF.

Life PBR Updates

- 2025-01: For the NPR and Deterministic Exclusion Test (DET), the company should compare the valuation mortality to their anticipated mortality (as outlined by VM-20 Section 9.C.4) **plus margins** (as outlined by VM-20 Section 9.C.6), and use the **anticipated mortality plus margins** if materially higher.
- 2025-02: Specifies rounding rules when unrounded rates are exactly between two quarters of a percent for nonforfeiture rates (round up) and valuation rates (round down for VM-20 Section 3.C.2.a and up for VM-20 Section 3.C.2.b). This formalized the existing informal rounding practice based on the rates published by NY.
- 2025-03: Modifies lapse assumption for ULSG policies with minimal CSV so that the required industry table is a guardrail rather than prescribed.
- 2025-09: Adds a guidance note reiterating that for reinsurance ceded, the ceding company still reflects its prudent direct expenses but also reflects the contractual expense reimbursements from the counterparty. This means there may be a net reserve reflecting any expense differences even when there is 100% coinsurance.

Variable Annuity PBR Updates

- 2024-15: Corrects error from APF 2024-07 unintentionally changing industry mortality table from a ceiling to a floor for the Standard Projection Amount for VAGLBs.
- 2024-14: Requires reporting on historical waivers of surrender charges provisions.
- 2025-07: As cleanup, removes references to the Company Specific Market Paths (CSMP) method in VM-21, since we are now past the CSMP's sunset.

Life and Variable Annuity PBR Updates

- 2024-13: Clarifies that any negative interest maintenance reserves (IMRs) must be **included** in PBR and CFT **if admitted** and excluded if not admitted. This **reduces the starting assets for PBR and CFT when there is admitted negative IMR.**
- 2025-10: Revises reinvestment guardrail for Life and Variable Annuity to have a minimum quality rather than a prescribed quality.

Non-PBR Updates

- 2024-11: Updates the annual statement column references in the Life PBR Exemption to reflect changes made to the annual statement blanks.
- 2024-16: Nonforfeiture requirements in Model #585 apply to **each** set of guarantees for UL policies where the CSV is based on multiple sets of guaranteed interest rates, expense charges, and/or mortality.
- 2025-08: VM 30, Section 3.A.4 – Revises Identification Section of the Life Actuarial Opinion to allow for appointed actuaries who are employed by one company within an insurance group, and who sign opinions on behalf of other companies within the group.

Questions and Answers

Please enter your Question(s) in the “Ask Question” box on your screen.

The presenters will answer as many questions as time allows.

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- [Actuary.org/Competency-Framework](https://www.actuary.org/Competency-Framework)

B. Achievement of an actuarial credential from an actuarial organization, both of which are recognized by the Academy

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Thank You

For more information, please contact

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