2015 Spring National Meeting  
Phoenix, Arizona

PRINCIPLE-BASED RESERVING IMPLEMENTATION (EX) TASK FORCE  
Monday, March 30, 2015  
8:30 – 10:30 a.m.  
Phoenix Convention Center North—Room 131—Street Level

ROLL CALL

Joseph Torti III, Co-Chair  
Rhode Island  
John M. Huff  
Missouri

Julie Mix McPeak, Co-Chair  
Tennessee  
Bruce R. Ramge  
Nebraska

Jim L. Ridling  
Alabama  
Benjamin M. Lawsky  
New York

Dave Jones  
California  
Mary Taylor  
Ohio

Katharine L. Wade  
Connecticut  
John D. Doak  
Oklahoma

Kevin M. McCarty  
Florida  
David Mattax  
Texas

Stephen W. Robertson  
Indiana  
Susan L. Donegan  
Vermont

Nick Gerhart  
Iowa

AGENDA

1. Consider Adoption of its March 16 and Feb. 11 Minutes—Superintendent Joseph Torti III (RI)  
   Attachment One

2. Discuss the Valuation Manual Operative Date, Criteria for “Substantially Similar,” and Principle-Based Reserving (PBR) Survey Results—Superintendent Joseph Torti III (RI)  
   Attachment Two

3. Consider Adoption of the Revised PBR Implementation Plan  
   —Commissioner Julie Mix McPeak (TN), Mike Boerner (TX), and Andrew Rarus (CT)  
   Attachment Three

4. Discuss the PBR Experience Reporting Framework—John Bauer (NAIC)

5. Consider Adoption of PBR Review (EX) Working Group Report  
   — Superintendent Joseph Torti III (RI), Mike Boerner (TX)  
   Attachment Four

6. Receive Written Update on PBR Progress from the Life Actuarial (A) Task Force  
   — Superintendent Joseph Torti III (RI), Mike Boerner (TX)  
   Attachment Five

7. Receive Written Updates on the XXX/AXXX Reinsurance Framework Charges Sent to Other NAIC Committee Groups—Commissioner Julie Mix McPeak (TN)  
   Attachment Six

8. Discuss Any Other Matters Brought Before the Task Force—Superintendent Joseph Torti III (RI)

9. Adjournment

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The Principle-Based Reserving Implementation (EX) Task Force met via conference call March 16, 2015. The following Task Force members participated: Joseph Torti III, Co-Chair (RI); Julie Mix McPeak, Co-Chair (TN); Jim L. Ridling (AL); Dave Jones represented by Perry Kupferman, Kim Hudson and John Finston (CA); Anne Melissa Dowling represented by Kathy Belfi, Andrew Rarus, Debra Zadzilko and Mike Colburn (CT); Kevin M. McCarty represented by Paul Johns, Chris Struk and Rich Robleto (FL); Nick Gerhart represented by Jim Armstrong and Mike Yanacheak (IA); Stephen W. Roberston represented by Julia Conrad (IN); John M. Huff represented by William Leung and John Rehagen (MO); Bruce R. Ramge represented by Rhonda Ahrens, John Rink, Monte Boesen, Lindsay Crawford and Justin C. Schrader (NE); Benjamin M. Lawsky represented by Mark McLeod and William Carmello (NY); Mary Taylor represented by Dale Bruggeman and Peter Weber (OH); and David Mattax represented by Mike Boerner (TX).

1. **Adopted the 2015 XXX/AXXX Reinsurance Supplement Proposal**

Neil Rector’s (Rector & Associates, Inc.) proposal for the 2015 XXX/AXXX Reinsurance Supplement blanks and instructions was exposed for comment until Feb. 23. Six comment letters were received (Attachment A). Mr. Rector revised the proposal and described the changes made (Attachment B) and some additional recommended technical changes proposed by NAIC staff.

Paul Graham (American Council of Life Insurers—ACLI) said the Part 1 definitions should apply to all Parts 1 through 4. He said some companies have been confused. Laurie Briggs (Rector & Associates, Inc.) said that there are references in Parts 2 through 4 that indicate the definitions from Part 1 apply. Mr. Rector said because some companies have been confused by the current approach, he recommends the ACLI proposed changes be made. The Task Force agreed.

Mr. Graham said the ACLI asked for exempted transactions to not be reported through Parts 2 through 4. He said some might jump to conclusions about particular transactions by looking at terms that are not relevant to the particular transactions. The transactions are not reserve financing transactions, yet the way it would be reported might make it look that way. He requested some way to show that these particular transactions are “outside the box” of looking at these captive transactions. Mr. Rector said there is reporting for special exemption transactions. He said the special exemptions should be used rarely, such as when a company would use bulk reinsurance to exit a line of business. Mr. Graham said they might be more prevalent. Some companies thought an exemption for grandfathered transactions might be appropriate. He said the box for a special exemption does not exist for past treaties, which is where confusion might result. Rich Daillak (American Academy of Actuaries—Academy) said the Academy submitted a similar comment. The Academy recommended there be ability in the schedule to self-report a non-financing transaction so that it is clearly communicated to the reader. Mr. Rector said the user would need to look at the detail behind the disclosure. He said the separation of the 2A and 2B sections keeps the reporting of those subject to Actuarial Guideline XLVIII (AG 48) separate from reporting of those not subject to AG 48. Superintendent Torti said the idea is to have as much transparency as possible. He said he would prefer to keep the transparency and the disclosure. Wally Kabler (Northwestern Mutual Life Insurance Company) said a resolution now might be to evaluate unintended reporting in 2015 and then consider changes, such as implementing some type of coding for 2016 that would eliminate confusion. The Task Force agreed not to make changes at this time.

The Task Force discussed whether Interrogatories 1.1 and 1.2 should be public or regulator-only. Mr. Rector said the interrogatories generally ask whether a company’s RBC would fall into an action level if the transaction would be unwound without the reinsurance. Mr. Rector said the interrogatories might not be needed in 2016 if the Life Risk-Based Capital (E) Working Group agrees to make changes to RBC that will require a more accurate analysis. Mr. Rector said he believes this is an appropriate question to be asked, but he can make arguments in favor of making this public and making this non-public. Mr. Rector said some might favor public disclosure because the companies have the liabilities, and the assets are those the company has to back those liabilities. To compare companies that did these transactions to those that did not, this information would likely make the comparison more valid. Mr. Rector said others might favor this to be regulator-only because of the potential to get misleading answers because some of the current reserves are redundant. He said regulators could evaluate the situation to properly understand. Companies also argue that if regulators would have disapproved the captive transaction, then the company would have likely taken different actions, such as not issuing dividends. Mr. Rector said after additional consideration, he would recommend this interrogatory be regulator-only. Commissioner McPeak, Mr. Yanacheak and Mr.
Boerner agreed the information should not be public for 2015 given the significant potential for misunderstanding. Paul Graham (ACLI) agreed that this could lead to a lot of misunderstanding. He said the information should be confidential at a minimum. He also wondered whether the interrogatory has much regulator use because there is so much that is hypothetical. He said it is like asking, “If we applied a different standard to you, would you pass it?” He said the explanation could also be very long. Superintendent Torti said that even with the hypotheticals, the information could allow more accurate comparisons between companies that have not entered into any of these transactions. He said that if regulators find the disclosure misleading, they could later consider eliminating the question. He said regulators might be able to write an interrogatory to discuss a less hypothetical impact on RBC that could provide some useful information to the public. The Task Force agreed to make the currently proposed Interrogatories 1.1 and 1.2 as regulator-only.

Mr. Graham asked for clarification on the definition of “regulatory action level.” Superintendent said the intent is the 200% company action level or lower. Mr. Rector said the intent was to apply this without including those that trigger the action level because of the trend test. Superintendent Torti asked to clarify the wording to be more clear.

Mr. Ostlund made a motion, seconded by Mr. Yanacheak, to adopt the proposal with technical changes sent out before the call to: 1) clarify that definitions for Part 1 also apply to Parts 2 through 4; 2) remove the proposed Interrogatories 1.1 and 1.2 and make those regulator-only; and 3) to clarify what is meant by “regulatory action level.” The Task Force adopted the motion and will send the proposal to the Blanks (E) Working Group for consideration (Attachment C).

Having no further business, the Principle-Based Reserving Implementation (EX) Task Force adjourned.
The Principle-Based Reserving Implementation (EX) Task Force met via conference call Feb. 11, 2015. The following Task Force members participated: Joseph Torti III, Co-Chair (RI); Julie Mix McPeak, Co-Chair (TN); Jim L. Ridling and Steve Ostlund (AL); Dave Jones represented by Al Bottalico, John Finston and Ahmad Kamil (CA); Anne Melissa Dowling represented by Kathy Belfi and Andrew Rarus (CT); Kevin M. McCarty represented by Paul Johns, Eric Johnson and Kerry Krantz (FL); Nick Gerhart represented by Mike Yanacheak (IA); John M. Huff represented by William Leung, Leslie Nehring and John Rehagen (MO); Bruce R. Ramge represented by Christine Neighbors, John Rink and Justin Schrader (NE); Benjamin M. Lawsky represented by Robert Easton and William Carmello (NY); Mary Taylor represented by Peter Weber (OH); John D. Doak represented by Joel Sander (OK); David Mattax represented by Mike Boerner (TX); and Todd E. Kiser represented by Jacob Garn and Tomasz Serbinowski (UT).

1. **Adopted its 2014 Fall National Meeting Minutes and Reappointed the PBR Review (EX) Working Group**

Mr. Johnson made a motion, seconded by Mr. Boerner, to adopt the Task Force’s Nov. 17, 2014, minutes (see NAIC Proceedings – Fall 2014, Principle-Based Reserving Implementation (EX) Task Force) and appoint the PBR Review (EX) Working Group membership for 2015 with Mr. Boerner as chair and the following membership: Susan Bernard and Perry Kupferman (CA); Eric Johnson and Kerry Krantz (FL); Mike Yanacheak (IA); Ken Abitz and Mark Birdsall (KS); William Leung and John Rehagen (MO); William Carmello and Mike Maffei (NY); Dwight Radel and Peter Weber (OH); Jack Broccoli (RI); and Kaj Samsom (VT).

2. **Voted to Expose a 2015 XXX/AXXX Reinsurance Supplement Proposal**

Neil Rector (Rector & Associates, Inc.) introduced a proposal for the 2015 XXX/AXXX Reinsurance Supplement blanks and instructions. Mr. Rector said changes are needed to the 2014 adopted XXX/AXXX Reinsurance Supplement because in 2015 there will need to be different reporting for grandfathered transactions not subject to Actuarial Guideline XLVIII (AG 48) than for new transactions subject to AG 48. He said he also addressed comments submitted at the end of 2014 and postponed for consideration with a 2015 proposal. Superintendent Torti asked if there were any objections to having a short exposure period. There were no objections. Mr. Bottalico made a motion, seconded by Mr. Yanacheak, to expose the proposal for a public comment period ending Feb. 23 (Attachment 1).

3. **Adopted Regulatory Criteria Regarding a Small Company Exemption**

Commissioner McPeak said many states are introducing revisions to their standard valuation laws during this session and some legislatures are discussing small company exemptions. She suggested that the Task Force move quickly on policy decisions regarding a small company exemption. She suggested that the Task Force use a discussion document to frame the discussion (Attachment 2).

The first issue discussed was whether to introduce a small company exemption. Mr. Easton said the small company exemption is not needed because it is unwarranted. He said there is no actuarial basis for a small company exemption. He said this is an instance where insurance commissioners are self-inflicting a wound by pursuing this path. John Bruins (American Council of Life Insurers—ACLI) said premium, product mix and solvency level components are included in this proposal. He said the 2012 Towers Watson impact study showed that reserves for small companies, after calculating exemption tests, would end up being the net premium reserve (NPR). Therefore, the calculation of the current exemption tests is not needed for these companies. He said the companies impacted make up less than 5% of the industry. Jim Hodges (National Alliance of Life Companies—NALC) said the NALC supports the ACLI proposal. He said NALC members are unsure about the cost of implementation, but the $50,000 figure has been fairly consistently mentioned. He said there is no benefit to be derived from calculating the exemption tests product by product, but there would be cost incurred. Superintendent Torti said he wants to make sure the industry understands that the current exclusion tests (i.e., “product by product exclusion tests”) were modified recently to allow the use of cash flow testing to satisfy the exclusion tests, which would seem to limit the cost of implementation. Mr. Bruins said there would be cost involved for people time and machine time, as well as secondary costs related to audit and exam requirements. He said recent changes were made to allow use of the asset adequacy analysis for these exclusion tests; however, the test would still need to be modified some. He said
modification is needed to do the cash flow testing more granularly at the product level and to break out and identify the particular assets and liabilities that fall under the umbrella of the testing. He said companies are currently speculating the costs because it is not a live requirement. Scott Harrison (Affordable Life Insurance Alliance—ALIA) said it is not unusual for regulators to exempt certain companies based on size or other factors where the cost and/or burden of implementation outweigh the benefits to solvency regulation. He said that companies not engaged in the riskier products should be excluded from the current exclusion tests. Mr. Hodges said regulation almost always costs more than regulators anticipate. Mr. Boerner said the deterministic exclusion test is already easy to apply, so he believes the companies’ concerns are likely with the stochastic exclusion test. He said two optional tests will be allowed that are simpler. One is the cash flow testing mentioned by Superintendent Torti. Another way to pass the stochastic exclusion test is to obtain certification from a qualified actuary that a group of policies is not subject to material interest rate risk or asset return volatility risk. He said there might be some questions regarding the level of documentation needed. He is not sure that companies have considered the variety of tests that are now allowed. Superintendent Torti says regulators need to address companies’ concerns, but a lot of the concerns have been addressed with the addition of more simple tests and he is not sure that the industry has considered these simpler tests. Mr. Johnson said a risk-based approach is the best approach for the exemption tests. He said that to reduce the administrative burden on small companies, regulators should let companies do what they do today, which is to hold the Commissioners Reserve Valuation Method (CRVM) reserve rather than the new NPR. Jerry Enoch (Alfa Life Insurance) said that if cash flow testing impacts the level of reserves to be held, then the cash flow testing will result in more scrutiny during audits and will add costs.

Commissioner Ridling made a motion, seconded by Ms. Belfi, to proceed with a small company exemption. New York voted against the motion. The motion passed.

The Task Force then discussed the premium thresholds. Commissioner McPeak said two levels of premium threshold were exposed for comment: $50 million per company and $300 million per group (“50/300”); and $300 million per company and $600 million per group (“300/600”). The 50/300 option was added to the exposed proposal after the Task Force met in via conference call Dec. 10, 2014. This conference call was held in regulator-to-regulator session pursuant to paragraph 3 (Specific companies, entities or individuals, including, but not limited to, collaborative financial and market conduct examinations and analysis) of the NAIC Policy Statement on Open Meetings. Mr. Easton said that if a small company exemption is to be implemented, it should be implemented as narrowly as possible with the smaller premium threshold. Mr. Bruins, Commissioner Hodges and Mr. Harrison expressed support for the 300/600 threshold. Mr. Bruins said the more companies involved in principle-based reserving (PBR), the more work for regulators. As such, a larger threshold would limit the regulatory resources needed. He said that in the exclusion, the commissioner has discretion with the ability to deny the exemption on an as-needed basis. Mr. Harrison agreed and said the ALIA believes a risk-based approach is appropriate. Mr. Easton said regulators should not make decisions based on what creates less work for regulators. He said regulators need to make decisions based on responsible and proper regulation.

The Task Force agreed to consider the premium thresholds and the applicable reserve calculation to be performed by the exempted small companies at the same time. Mr. Easton said that if a small company exemption is to be implemented, he would support use of the CRVM reserve. He said the CRVM is known to work, whereas the NPR was developed as a tax floor. He said he does not believe anyone regards the NPR to be a “real” reserve and he believes regulators would find this level to be deficient. Mr. Boerner said that if the NPR is to be the resulting premium calculation for exempted small companies, the Task Force will need to consider whether to apply the small company exemption during the three-year transitional period where PBR is optional, or wait until PBR is required. He said this does not need to be discussed if CRVM is used. Mr. Bruins said the ACLI believes the NPR is the appropriate reserving approach because the CRVM reserve has been shown to be too high for certain products. He said the NPR only applies to term insurance and universal life with secondary guarantee (ULSG) products. He said the small company exclusion test cannot be met if there is a universal life policy with a material secondary guaranty written, so the only need is to discuss whether CRVM or NPR is most appropriate for term insurance. He said that 10 years ago everyone agreed the CRVM reserve for term insurance was too high. He said the 2012 Towers Watson impact study demonstrated that, for every term product issued, the NPR was higher than the deterministic reserve, where the deterministic reserve was a proxy for an adequate reserve. Therefore, because the NPR was higher, the NPR is an adequate reserve for term insurance. He said the NPR for a company excluded via the small company exemption test would be higher than the NPR for companies that use the product-by-product exemption tests because an additional reserve is likely to be calculated. The additional reserve results because of the seriatim (versus aggregate) requirement for those companies exempted under the small company exemption. He said holding CRVM could be a tax issue. While no tax rulings have been issued yet, he said it is likely the tax basis will be the NPR. Then, small companies would be required to hold reserves higher than that which is tax-deductible.
Upon a motion by Mr. Johnson, seconded by Mr. Yanacheak, the Task Force decided the premium thresholds should be established at $300 million per company and $600 million per group and the resulting reserve for exempted small companies would be the CRVM rather than the NPR. New York voted against the motion.

The Task Force discussed whether to put the small company exemption in the Standard Valuation Law (#820) or the Valuation Manual. Mr. Bruin said the ACLI supports inclusion of the exemption in the Valuation Manual for uniformity. He said the ACLI does have suggested language if parties want the exclusion in their law, although the ACLI does not support doing so. Superintendent Torti said that, for multi-state insurers, other states will require reserves based upon the Valuation Manual, so it would be an exercise in futility for the states to put the exclusion in their statutes. He said commissioners have discretion already with single-state companies. Many state regulators supported putting the exemption in the Valuation Manual.

Upon a motion by Mr. Boerner, seconded by Mr. Rarus, the Task Force decided to include the small company exemption in the Valuation Manual and not in Model #820. New York abstained.

The following summarizes the regulatory criteria agreed by the Task Force in regards a small company exemption:

- **Companywide Exemption**: Unlike the existing product line exclusions, this small company exemption would apply to the entire company.
- **Exempt from Performing PBR Exclusion Tests**: Rather than being exempted from the Valuation Manual entirely (and thus not subject to reporting requirements, etc.), the company would be exempted from performing PBR exclusion tests.
- **Premium threshold**: A company’s ordinary life premiums must be less than $300M for the legal entity and less than $600M for the associated group.
- **Risk-Based Capital (RBC) threshold**: A company’s RBC must be at least 450%.
- **ULSGs**: There can be no material Universal Life with secondary guaranty business in force.
- **Reserve methodology that applies for exempted companies**: Commissioners Reserve Valuation Methodology (CRVM).
- **Location of Small Company Exemption**: The exemption language will be included in the Valuation Manual as opposed to being added to the model Standard Valuation Law.

Commissioner McPeak encouraged the states to move forward with the policy decisions made so far.

4. **Discussed the Substantially Similar Proposal**

Commissioner McPeak said the threshold for the Valuation Manual to become operative is at least 42 states representing at least 75% of the premium. The states that get counted to meet this threshold are only those that implement law with the same or substantially similar terms and provisions as Model #820. She said the Task Force needs to decide what it means to have the same or substantially similar terms and provisions.

The Task Force discussed the substantially similar proposal at the 2014 Fall National Meeting, prior to exposing the proposal for a public comment period ending Jan. 15, and no comments were received. She said that, at that time, Mr. Ostlund mentioned that the Task Force will need to decide whether to count a state that introduces an additional component in its law that is not in Model #820. Also at that time, Superintendent Torti said that, during accreditation review, regulators would evaluate whether a change to a state’s law is more conservative. However, the treatment might be different in evaluation of whether a state has used substantially similar terms and provisions for this purpose. Additionally, Superintendent Torti said he is unsure whether the current sections identified would be sufficient.

Commissioner McPeak said the Task Force will discuss the issue at the Spring National Meeting.

Having no further business, the Principle-Based Reserving Implementation (EX) Task Force adjourned.
The Valuation Manual Operative Date is defined in Section 11B of the Standard Valuation Law (#820). Section 11B contains the terminology “legislation including substantially similar terms and provisions, has been enacted…” but does not define what those substantially similar terms and provisions should be. The PBR Implementation (EX) Task Force must decide what to use as the substantially similar terms and provisions to determine the Valuation Manual Operative Date.

The following highlighted sections are those sections proposed as the “Substantially Similar” accreditation requirements for the revised Standard Valuation Law (#820), as presented to the Financial Accreditation (F) Committee on March 1, 2010. The committee has not yet taken action on the proposal. As one option, the PBR Implementation (EX) Task Force will consider using these sections as the substantially similar terms and provisions for the Valuation Manual Operative Date.

**STANDARD VALUATION LAW**

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**Section 1. Title and Definitions**

A. This Act shall be known as the Standard Valuation Law.

B. For the purposes of this Act the following definitions shall apply on or after the operative date of the valuation manual:

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.

2. The term “appointed actuary” means a qualified actuary who is appointed in accordance with the valuation manual to prepare the actuarial opinion required in Section 3B of this Act.

3. 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.

4. The term “deposit-type contract” means contracts that do not incorporate mortality or morbidity risks and as may be specified in the valuation manual.

5. 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.

6. The term “NAIC” means the National Association of Insurance Commissioners.

7. 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 this Act 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.

8. 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 this Act as specified in the valuation manual.

9. 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.

10. 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.

11. The term “valuation manual” means the manual of valuation instructions adopted by the NAIC as specified in this Act or as subsequently amended.
Drafting Note: The term commissioner means the insurance supervisory official of a State or jurisdiction of the United States and therefore, the term commissioner should be replaced with the appropriate title in the adopting State or jurisdiction. In addition, the term State should be replaced with the appropriate term for the adopting jurisdiction.

Drafting Note: It is critical that each state retain the terms “accident and health”, “deposit-type contract”, and “life insurance” in this section because the terms are specifically defined for purposes of the standard valuation law and applicability of the valuation manual standards for such contracts issued on or after the operative date of the valuation manual.

Section 2. Reserve Valuation

A. Policies and Contracts Issued Prior to the Operative Date of the Valuation Manual

(1) The commissioner shall annually value, or cause to be valued, the reserve liabilities (hereinafter called reserves) for all outstanding life insurance policies and annuity and pure endowment contracts of every life insurance company doing business in this State issued on or after [insert the original effective date of the Standard Valuation Law in this State] and prior to the operative date of the valuation manual. In calculating reserves, the commissioner may use group methods and approximate averages for fractions of a year or otherwise. In lieu of the valuation of the reserves required of a foreign or alien company, the commissioner may accept a valuation made, or caused to be made, by the insurance supervisory official of any State or other jurisdiction when the valuation complies with the minimum standard provided in this Act.

(2) The provisions set forth in Sections 4, 4a, 4b, 5, 5a, 6, 7, 8, 9, and 10 of this Act shall apply to all policies and contracts, as appropriate, subject to this Act issued on or after [insert the original effective date of the Standard Valuation Law in this State] and prior to the operative date of the valuation manual and the provisions set forth in Sections 11 and 12 of this Act shall not apply to any such policies and contracts.

(3) The minimum standard for the valuation of policies and contracts issued prior to [insert the original effective date of the Standard Valuation Law in this State] shall be that provided by the laws in effect immediately prior to that date.

Drafting Note: The Standard Valuation Law prior to the operative date of the valuation manual applies to deposit-type contracts. There is no intent to change the valuation standards for deposit-type contracts.

Drafting Note: The dates inserted should remain unchanged from those appearing in the State’s existing Standard Valuation Law.

B. Policies and Contracts Issued On or After the Operative Date of the Valuation Manual

(1) The commissioner shall annually value, or cause to be valued, the reserve liabilities (hereinafter called reserves) for all outstanding life insurance contracts, annuity and pure endowment contracts, accident and health contracts, and deposit-type contracts of every company issued on or after the operative date of the valuation manual. In lieu of the valuation of the reserves required of a foreign or alien company, the commissioner may accept a valuation made, or caused to be made, by the insurance supervisory official of any State or other jurisdiction when the valuation complies with the minimum standard provided in this Act.
(2) The provisions set forth in Sections 11 and 12 of this Act shall apply to all policies and contracts issued on or after the operative date of the valuation manual.

Section 3. Actuarial Opinion of Reserves

A. Actuarial Opinion Prior to the Operative Date of the Valuation Manual

(1) General

Every life insurance company doing business in this state shall annually submit the opinion of a qualified actuary as to whether the reserves and related actuarial items held in support of the policies and contracts specified by the commissioner by regulation are computed appropriately, are based on assumptions that satisfy contractual provisions, are consistent with prior reported amounts and comply with applicable laws of this state. The commissioner shall define by regulation the specifics of this opinion and add any other items deemed to be necessary to its scope.

(2) Actuarial Analysis of Reserves and Assets Supporting Reserves

(a) Every life insurance company, except as exempted by regulation, shall also annually include in the opinion required by Subsection (1) of this section, an opinion of the same qualified actuary as to whether the reserves and related actuarial items held in support of the policies and contracts specified by the commissioner by regulation, when considered in light of the assets held by the company with respect to the reserves and related actuarial items, including but not limited to the investment earnings on the assets and the considerations anticipated to be received and retained under the policies and contracts, make adequate provision for the company’s obligations under the policies and contracts, including but not limited to the benefits under and expenses associated with the policies and contracts.

(b) The commissioner may provide by regulation for a transition period for establishing any higher reserves that the qualified actuary may deem necessary in order to render the opinion required by this section.

(3) Requirement for Opinion Under Section 3A(2)

Each opinion required by Subsection (2) shall be governed by the following provisions:

(a) A memorandum, in form and substance acceptable to the commissioner as specified by regulation, shall be prepared to support each actuarial opinion.

(b) If the insurance company fails to provide a supporting memorandum at the request of the commissioner within a period specified by regulation or the commissioner determines that the supporting
memorandum provided by the insurance company fails to meet the standards prescribed by the regulations or is otherwise unacceptable to the commissioner, the commissioner may engage a qualified actuary at the expense of the company to review the opinion and the basis for the opinion and prepare the supporting memorandum required by the commissioner.

(4) Requirement for All Opinions Subject to Section 3A

Every opinion required by Section 3A shall be governed by the following provisions:

(a) The opinion shall be submitted with the annual statement reflecting the valuation of such reserve liabilities for each year ending on or after December 31, [ ].

Drafting Note: The date inserted should remain unchanged from the one appearing in the State’s existing Standard Valuation Law.

(b) The opinion shall apply to all business in force including individual and group health insurance plans, in form and substance acceptable to the commissioner as specified by regulation.

(c) The opinion shall be based on standards adopted from time to time by the Actuarial Standards Board and on such additional standards as the commissioner may by regulation prescribe.

(d) In the case of an opinion required to be submitted by a foreign or alien company, the commissioner may accept the opinion filed by that company with the insurance supervisory official of another state if the commissioner determines that the opinion reasonably meets the requirements applicable to a company domiciled in this state.

(e) For the purposes of this section, “qualified actuary” means a member in good standing of the American Academy of Actuaries who meets the requirements set forth in the regulation.

(f) Except in cases of fraud or willful misconduct, the qualified actuary shall not be liable for damages to any person (other than the insurance company and the commissioner) for any act, error, omission, decision or conduct with respect to the actuary’s opinion.

(g) Disciplinary action by the commissioner against the company or the qualified actuary shall be defined in regulations by the commissioner.

(h) Except as provided in Paragraphs (l), (m) and (n), documents, materials or other information in the possession or control of the Department of Insurance that are a memorandum in support of the opinion, and any other material provided by the company to the commissioner in connection with the memorandum, shall be confidential by law and privileged, shall not be subject to [insert open records, freedom of information, sunshine or other appropriate phrase], shall not be subject to subpoena, and shall not be subject to discovery or admissible in evidence in any private civil action.
However, the commissioner is authorized to use the documents, materials or other information in the furtherance of any regulatory or legal action brought as a part of the commissioner’s official duties.

(i) Neither the commissioner nor any person who received documents, materials or other information while acting under the authority of the commissioner shall be permitted or required to testify in any private civil action concerning any confidential documents, materials or information subject to Paragraph (h).

(j) In order to assist in the performance of the commissioner’s duties, the commissioner:

(i) May share documents, materials or other information, including the confidential and privileged documents, materials or information subject to Paragraph (h) with other state, federal and international regulatory agencies, with the National Association of Insurance Commissioners and its affiliates and subsidiaries, and with state, federal and international law enforcement authorities, provided that the recipient agrees to maintain the confidentiality and privileged status of the document, material or other information;

(ii) May receive documents, materials or information, including otherwise confidential and privileged documents, materials or information, from the National Association of Insurance Commissioners and its affiliates and subsidiaries, and from regulatory and law enforcement officials of other foreign or domestic jurisdictions, and shall maintain as confidential or privileged any document, material or information received with notice or the understanding that it is confidential or privileged under the laws of the jurisdiction that is the source of the document, material or information; and

(iii) [Optional provision] May enter into agreements governing sharing and use of information consistent with Paragraphs (b) to (j).

Drafting Note: The language in paragraph (j)(i) assumes the recipient has the authority to protect the applicable confidentiality or privilege, but does not address the verification of that authority, which would presumably occur in the context of a broader information sharing agreement.

(k) No waiver of any applicable privilege or claim of confidentiality in the documents, materials or information shall occur as a result of disclosure to the commissioner under this section or as a result of sharing as authorized in Paragraph (j).

(l) A memorandum in support of the opinion, and any other material provided by the company to the commissioner in connection with the memorandum, may be subject to subpoena for the purpose of defending an action seeking damages from the actuary submitting the memorandum by reason of an action required by this section or by regulations promulgated hereunder.
(m) The memorandum or other material may otherwise be released by the commissioner with the written consent of the company or to the American Academy of Actuaries upon request stating that the memorandum or other material is required for the purpose of professional disciplinary proceedings and setting forth procedures satisfactory to the commissioner for preserving the confidentiality of the memorandum or other material.

(n) Once any portion of the confidential memorandum is cited by the company in its marketing or is cited before a governmental agency other than a state insurance department or is released by the company to the news media, all portions of the confidential memorandum shall be no longer confidential.

B. Actuarial Opinion of Reserves after the Operative Date of the Valuation Manual

(1) General

Every company with outstanding life insurance contracts, accident and health insurance contracts or deposit-type contracts in this State and subject to regulation by the commissioner shall annually submit the opinion of the appointed actuary as to whether the reserves and related actuarial items held in support of the policies and contracts are computed appropriately, are based on assumptions that satisfy contractual provisions, are consistent with prior reported amounts and comply with applicable laws of this State. The valuation manual will prescribe the specifics of this opinion including any items deemed to be necessary to its scope.

(2) Actuarial Analysis of Reserves and Assets Supporting Reserves

Every company with outstanding life insurance contracts, accident and health insurance contracts or deposit-type contracts in this state and subject to regulation by the commissioner, except as exempted in the valuation manual, shall also annually include in the opinion required by Subsection (1) of this section, an opinion of the same appointed actuary as to whether the reserves and related actuarial items held in support of the policies and contracts specified in the valuation manual, when considered in light of the assets held by the company with respect to the reserves and related actuarial items, including but not limited to the investment earnings on the assets and the considerations anticipated to be received and retained under the policies and contracts, make adequate provision for the company’s obligations under the policies and contracts, including but not limited to the benefits under and expenses associated with the policies and contracts.

(3) Requirements for Opinions Subject to Section 3B(2)

Each opinion required by Subsection 3B shall be governed by the following provisions:

(a) A memorandum, in form and substance as specified in the valuation manual, and acceptable to the commissioner, shall be prepared to support each actuarial opinion.
Standard Valuation Law

(b) If the insurance company fails to provide a supporting memorandum at the request of the commissioner within a period specified in the valuation manual or the commissioner determines that the supporting memorandum provided by the insurance company fails to meet the standards prescribed by the valuation manual or is otherwise unacceptable to the commissioner, the commissioner may engage a qualified actuary at the expense of the company to review the opinion and the basis for the opinion and prepare the supporting memorandum required by the commissioner.

(4) Requirement for All Opinions Subject to Section 3B

Every opinion shall be governed by the following provisions:

(a) The opinion shall be in form and substance as specified in the valuation manual and acceptable to the commissioner.

(b) The opinion shall be submitted with the annual statement reflecting the valuation of such reserve liabilities for each year ending on or after the operative date of the valuation manual.

(c) The opinion shall apply to all policies and contracts subject to Section 3B(2), plus other actuarial liabilities as may be specified in the valuation manual.

(d) The opinion shall be based on standards adopted from time to time by the Actuarial Standards Board or its successor, and on such additional standards as may be prescribed in the valuation manual.

(e) In the case of an opinion required to be submitted by a foreign or alien company, the commissioner may accept the opinion filed by that company with the insurance supervisory official of another State if the commissioner determines that the opinion reasonably meets the requirements applicable to a company domiciled in this State.

(f) Except in cases of fraud or willful misconduct, the appointed actuary shall not be liable for damages to any person (other than the insurance company and the commissioner) for any act, error, omission, decision or conduct with respect to the appointed actuary’s opinion.

(g) Disciplinary action by the commissioner against the company or the appointed actuary shall be defined in regulations by the commissioner.

Drafting Note: States may need to adopt regulations to address disciplinary action.

Section 4. Computation of Minimum Standard

Except as provided in Sections 4a, 4b and 10, the minimum standard for the valuation of policies and contracts issued prior to the effective date of this Act shall be that provided by the laws in effect immediately prior to that date. Except as otherwise provided in Sections 4a, 4b and 10, the minimum standard for the valuation of all policies and contracts issued on or after [insert original effective date of the Standard Valuation Law in this State] shall be the commissioner’s reserve valuation methods defined in Sections 5, 5a, 8 and 10, three and one-half percent (3 1/2%) interest.
or in the case of life insurance policies and contracts, other than annuity and pure endowment contracts, issued on or after [insert effective date of 1972 NAIC amendments to the Standard Valuation Law], four percent (4%) interest for policies issued prior to [insert effective date of 1976 NAIC amendments to the Standard Valuation Law], five and one-half percent (5 1/2%) interest for single premium life insurance policies and four and one-half percent (4 1/2%) interest for all other policies issued on and after [insert effective date of 1976 NAIC amendments to the Standard Valuation Law], and the following tables:

A. For ordinary policies of life insurance issued on the standard basis, excluding any disability and accidental death benefits in the policies: the Commissioners 1941 Standard Ordinary Mortality Table for policies issued prior to the operative date of Section 5a of the Standard Nonforfeiture Law for Life Insurance as amended, the Commissioners 1958 Standard Ordinary Mortality Table for policies issued on or after the operative date of Section 5a of the Standard Nonforfeiture Law for Life Insurance as amended and prior to the operative date of Section 5c of the Standard Nonforfeiture Law for Life Insurance as amended, provided that for any category of policies issued on female risks, all modified net premiums and present values referred to in this Act may be calculated according to an age not more than six (6) years younger than the actual age of the insured; and for policies issued on or after the operative date of Section 5c of the Standard Nonforfeiture Law for Life Insurance as amended:

(1) The Commissioners 1980 Standard Ordinary Mortality Table;

(2) At the election of the company for any one or more specified plans of life insurance, the Commissioners 1980 Standard Ordinary Mortality Table with Ten-Year Select Mortality Factors; or

(3) Any ordinary mortality table, adopted after 1980 by the NAIC, which is approved by regulation promulgated by the commissioner for use in determining the minimum standard of valuation for such policies.

B. For industrial life insurance policies issued on the standard basis, excluding any disability and accidental death benefits in the policies: the 1941 Standard Industrial Mortality Table for policies issued prior to the operative date of Section 5b of the Standard Nonforfeiture Law for Life Insurance as amended, and for policies issued on or after the operative date of Section 5b, the Commissioners 1961 Standard Industrial Mortality Table or any industrial mortality table adopted after 1980 by the NAIC that is approved by regulation promulgated by the commissioner for use in determining the minimum standard of valuation for the policies;

C. For individual annuity and pure endowment contracts, excluding any disability and accidental death benefits in the policies: the 1937 Standard Annuity Mortality Table, or at the option of the company, the Annuity Mortality Table for 1949, Ultimate, or any modification of either of these tables approved by the commissioner;

D. For group annuity and pure endowment contracts, excluding any disability and accidental death benefits in the policies: the Group Annuity Mortality Table for 1951, a modification of the table approved by the commissioner, or at the option of the company, any of the tables or modifications of tables specified for individual annuity and pure endowment contracts.
E. For total and permanent disability benefits in or supplementary to ordinary policies or contracts: for policies or contracts issued on or after January 1, 1966, the tables of Period 2 disablement rates and the 1930 to 1950 termination rates of the 1952 Disability Study of the Society of Actuaries, with due regard to the type of benefit or any tables of disablement rates and termination rates adopted after 1980 by the NAIC, that are approved by regulation promulgated by the commissioner for use in determining the minimum standard of valuation for those policies; for policies or contracts issued on or after January 1, 1961 and prior to January 1, 1966, either those tables or, at the option of the company, the Class (3) Disability Table (1926); and for policies issued prior to January 1, 1961, the Class (3) Disability Table (1926). Any such table shall, for active lives, be combined with a mortality table permitted for calculating the reserves for life insurance policies;

F. For accidental death benefits in or supplementary to policies issued on or after January 1, 1966: the 1959 Accidental Death Benefits Table or any accidental death benefits table adopted after 1980 by the NAIC that is approved by regulation promulgated by the commissioner for use in determining the minimum standard of valuation for those policies, for policies issued on or after January 1, 1961 and prior to January 1, 1966, either that table or, at the option of the company, the Inter-Company Double Indemnity Mortality Table; and for policies issued prior to January 1, 1961, the Inter-Company Double Indemnity Mortality Table. Either table shall be combined with a mortality table for calculating the reserves for life insurance policies; and

G. For group life insurance, life insurance issued on the substandard basis and other special benefits: tables approved by the commissioner.

Drafting Note: The dates inserted should remain unchanged from those appearing in the State’s existing Standard Valuation Law.

Section 4a. Computation of Minimum Standard for Annuities

A. Except as provided in Section 4b, the minimum standard of valuation for individual annuity and pure endowment contracts issued on or after the operative date of this Section 4a and for annuities and pure endowments purchased on or after the operative date under group annuity and pure endowment contracts, shall be the commissioner’s reserve valuation methods defined in Sections 5 and 5a and the following tables and interest rates:

(1) For individual annuity and pure endowment contracts issued prior to [insert effective date of 1976 NAIC amendments to the Standard Valuation Law], excluding any disability and accidental death benefits in those contracts: the 1971 Individual Annuity Mortality Table, or any modification of this table approved by the commissioner, and six percent (6%) interest for single premium immediate annuity contracts and four percent (4%) interest for all other individual annuity and pure endowment contracts;

(2) For individual single premium immediate annuity contracts issued on or after [insert effective date of 1976 NAIC amendments to the Standard Valuation Law], excluding any disability and accidental death benefits in those contracts: the 1971 Individual Annuity Mortality Table or any individual annuity mortality table adopted after 1980 by the NAIC that is approved by regulation promulgated by the commissioner for use in...
determining the minimum standard of valuation for these contracts, or any modification of these tables approved by the commissioner, and seven and one-half percent (7 1/2%) interest;

(3) For individual annuity and pure endowment contracts issued on or after [insert effective date of 1976 NAIC amendments to the Standard Valuation Law], other than single premium immediate annuity contracts, excluding any disability and accidental death benefits in those contracts: the 1971 Individual Annuity Mortality Table or any individual annuity mortality table adopted after 1980 by the NAIC, that is approved by regulation promulgated by the commissioner for use in determining the minimum standard of valuation for those contracts, or any modification of these tables approved by the commissioner, and five and one-half percent (5 1/2%) interest for single premium deferred annuity and pure endowment contracts and four and one-half percent (4 1/2%) interest for all other individual annuity and pure endowment contracts;

(4) For annuities and pure endowments purchased prior to [insert effective date of 1976 NAIC amendments to the Standard Valuation Law] under group annuity and pure endowment contracts, excluding any disability and accidental death benefits purchased under those contracts: the 1971 Group Annuity Mortality Table or any modification of this table approved by the commissioner, and six percent (6%) interest; and

(5) For annuities and pure endowments purchased on or after [insert effective date of 1976 NAIC amendments to the Standard Valuation Law] under group annuity and pure endowment contracts, excluding any disability and accidental death benefits purchased under those contracts: the 1971 Group Annuity Mortality Table, or any group annuity mortality table adopted after 1980 by the NAIC that is approved by regulation promulgated by the commissioner for use in determining the minimum standard of valuation for annuities and pure endowments, or any modification of these tables approved by the commissioner, and seven and one-half percent (7 1/2%) interest;

B. After [insert effective date of 1972 NAIC amendments to the Standard Valuation Law], any company may file with the commissioner a written notice of its election to comply with the provisions of this section after a specified date before January 1, 1979, which shall be the operative date of this section for that company. If a company makes no election, the operative date of this section for that company shall be January 1, 1979.

Drafting Note: The dates inserted should remain unchanged from those appearing in the State’s existing Standard Valuation Law.

Section 4b. Computation of Minimum Standard by Calendar Year of Issue

A. The interest rates used in determining the minimum standard for the valuation of the following shall be the calendar year statutory valuation interest rates as defined in this section:

(1) Life insurance policies issued in a particular calendar year, on or after the operative date of Section 5c of the Standard Nonforfeiture Law for Life Insurance as amended;
Standard Valuation Law

(2) Individual annuity and pure endowment contracts issued in a particular calendar year on or after January 1, 19[ ] [insert the calendar year next following the effective date of the 1980 NAIC amendments to the Standard Valuation Law];

(3) Annuities and pure endowments purchased in a particular calendar year on or after January 1, 19[ ] [insert the calendar year next following the effective date of the 1980 NAIC amendments to the Standard Valuation Law] under group annuity and pure endowment contracts; and

(4) The net increase, if any, in a particular calendar year after January 1, 19[ ] [insert the calendar year next following the effective date of the 1980 NAIC amendments to the Standard Valuation Law], in amounts held under guaranteed interest contracts.

Drafting Note: The dates inserted should remain unchanged from those appearing in the State’s existing Standard Valuation Law.

B. Calendar Year Statutory Valuation Interest Rates

(1) The calendar year statutory valuation interest rates, I, shall be determined as follows and the results rounded to the nearer one-quarter of one percent (1/4 of 1%):

(a) For life insurance:

\[ I = 0.03 + \frac{W}{2} (R - 0.09) + 0.03 \] 

(b) For single premium immediate annuities and for annuity benefits involving life contingencies arising from other annuities with cash settlement options and from guaranteed interest contracts with cash settlement options:

\[ I = 0.03 + W (R - 0.03) \]

Where \( R \) is the lesser of \( R \) and .09, \( R \) is the greater of \( R \) and .09, \( R \) is the reference interest rate defined in this section, \( W \) is the weighting factor defined in this section;

(c) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on an issue year basis, except as stated in Subparagraph (b) above, the formula for life insurance stated in Subparagraph (a) above shall apply to annuities and guaranteed interest contracts with guarantee durations in excess of ten (10) years and the formula for single premium immediate annuities stated in Subparagraph (b) above shall apply to annuities and guaranteed interest contracts with guarantee duration of ten (10) years or less;

(d) For other annuities with no cash settlement options and for guaranteed interest contracts with no cash settlement options, the
formula for single premium immediate annuities stated in Subparagraph (b) above shall apply.

(e) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a change in fund basis, the formula for single premium immediate annuities stated in Subparagraph (b) above shall apply.

(2) However, if the calendar year statutory valuation interest rate for a life insurance policy issued in any calendar year determined without reference to this sentence differs from the corresponding actual rate for similar policies issued in the immediately preceding calendar year by less than one-half of one percent (1/2 of 1%), the calendar year statutory valuation interest rate for the life insurance policies shall be equal to the corresponding actual rate for the immediately preceding calendar year. For purposes of applying the immediately preceding sentence, the calendar year statutory valuation interest rate for life insurance policies issued in a calendar year shall be determined for 1980 (using the reference interest rate defined in 1979) and shall be determined for each subsequent calendar year regardless of when Section 5c of the Standard Nonforfeiture Law for Life Insurance as amended becomes operative.

C. Weighting Factors

(1) The weighting factors referred to in the formulas stated above are given in the following tables:

(a) Weighting Factors for Life Insurance:

<table>
<thead>
<tr>
<th>Guarantee Duration (Years)</th>
<th>Weighting Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 or less</td>
<td>.50</td>
</tr>
<tr>
<td>More than 10, but not more than 20</td>
<td>.45</td>
</tr>
<tr>
<td>More than 20</td>
<td>.35</td>
</tr>
</tbody>
</table>

For life insurance, the guarantee duration is the maximum number of years the life insurance can remain in force on a basis guaranteed in the policy or under options to convert to plans of life insurance with premium rates or nonforfeiture values or both which are guaranteed in the original policy;

(b) Weighting factor for single premium immediate annuities and for annuity benefits involving life contingencies arising from other annuities with cash settlement options and guaranteed interest contracts with cash settlement options:

(c) Weighting factors for other annuities and for guaranteed interest contracts, except as stated in Subparagraph (b) above, shall be as specified in items (i), (ii) and (iii) below, according to the rules and definitions in items (iv), (v) and (vi) below:
(i) For annuities and guaranteed interest contracts valued on an issue year basis:

<table>
<thead>
<tr>
<th>Guarantee Duration (Years)</th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 or less:</td>
<td>.80</td>
<td>.60</td>
<td>.50</td>
</tr>
<tr>
<td>More than 5, but not more than 10:</td>
<td>.75</td>
<td>.60</td>
<td>.50</td>
</tr>
<tr>
<td>More than 10, but not more than 20:</td>
<td>.65</td>
<td>.50</td>
<td>.45</td>
</tr>
<tr>
<td>More than 20:</td>
<td>.45</td>
<td>.35</td>
<td>.35</td>
</tr>
</tbody>
</table>

(ii) For annuities and guaranteed interest contracts valued on a change in fund basis, the factors shown in item (i) above increased by:

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>.15</td>
<td>.25</td>
<td>.05</td>
</tr>
</tbody>
</table>

(iii) For annuities and guaranteed interest contracts valued on an issue year basis (other than those with no cash settlement options) that do not guarantee interest on considerations received more than one year after issue or purchase and for annuities and guaranteed interest contracts valued on a change in fund basis that do not guarantee interest rates on considerations received more than twelve (12) months beyond the valuation date, the factors shown in item (i) or derived in item (ii) increased by:

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>.05</td>
<td>.05</td>
<td>.05</td>
</tr>
</tbody>
</table>

(iv) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, the guarantee duration is the number of years for which the contract guarantees interest rates in excess of the calendar year statutory valuation interest rate for life insurance policies with guarantee duration in excess of twenty (20) years. For other annuities with no cash settlement options and for guaranteed interest contracts with no cash settlement options, the guaranteed duration is the
number of years from the date of issue or date of purchase to the
date annuity benefits are scheduled to commence.

(v) Plan type as used in the above tables is defined as follows:

Plan Type A: At any time policyholder may withdraw funds
only (1) with an adjustment to reflect changes
in interest rates or asset values since receipt
of the funds by the insurance company, or (2)
without an adjustment but installments over
five years or more, or (3) as an immediate life
annuity, or (4) no withdrawal permitted.

Plan Type B: Before expiration of the interest rate
guarantee, policyholder may withdraw funds
only (1) with an adjustment to reflect changes
in interest rates or asset values since receipt
of the funds by the insurance company, or (2)
without an adjustment but in installments
over five years or more, or (3) no withdrawal
permitted. At the end of interest rate
guarantee, funds may be withdrawn without
an adjustment in a single sum or installments
over less than five years.

Plan Type C: Policyholder may withdraw funds before
expiration of interest rate guarantee in a
single sum or installments over less than five
years either (1) without adjustment to reflect
changes in interest rates or asset values since
receipt of the funds by the insurance company,
or (2) subject only to a fixed surrender charge
stipulated in the contract as a percentage of
the fund.

(vi) A company may elect to value guaranteed interest contracts with
cash settlement options and annuities with cash settlement
options on either an issue year basis or on a change in fund
basis. Guaranteed interest contracts with no cash settlement
options and other annuities with no cash settlement
options must be valued on an issue year basis. As used in this section, an
issue year basis of valuation refers to a valuation basis under
which the interest rate used to determine the minimum
valuation standard for the entire duration of the annuity or
guaranteed interest contract is the calendar year valuation
interest rate for the year of issue or year of purchase of the
annuity or guaranteed interest contract, and the change in fund
basis of valuation refers to a valuation basis under which the
interest rate used to determine the minimum valuation standard
applicable to each change in the fund held under the annuity or
guaranteed interest contract is the calendar year valuation
interest rate for the year of the change in the fund.
D. Reference Interest Rate

(1) The reference interest rate referred to in subsection B of this section shall be defined as follows:

(a) For life insurance, the lesser of the average over a period of thirty-six (36) months and the average over a period of twelve (12) months, ending on June 30 of the calendar year preceding the year of issue, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc.

(b) For single premium immediate annuities and for annuity benefits involving life contingencies arising from other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, the average over a period of twelve (12) months, ending on June 30 of the calendar year of issue or year of purchase, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc.

(c) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a year of issue basis, except as stated in Subparagraph (b) above, with guarantee duration in excess of ten (10) years, the lesser of the average over a period of thirty-six (36) months and the average over a period of twelve (12) months, ending on June 30 of the calendar year of issue or purchase, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc.

(d) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a year of issue basis, except as stated in Subparagraph (b) above, with guarantee duration of ten (10) years or less, the average over a period of twelve (12) months, ending on June 30 of the calendar year of issue or purchase, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc.

(e) For other annuities with no cash settlement options and for guaranteed interest contracts with no cash settlement options, the average over a period of twelve (12) months, ending on June 30 of the calendar year of issue or purchase, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc.

(f) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a change in fund basis, except as stated in Subparagraph (b) above, the average over a period of twelve (12) months, ending on June 30 of the calendar year of the change in the fund, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc.
E. Alternative Method for Determining Reference Interest Rates. In the event that the monthly average of the composite yield on seasoned corporate bonds is no longer published by Moody's Investors Service, Inc. or in the event that the NAIC determines that the monthly average of the composite yield on seasoned corporate bonds as published by Moody's Investors Service, Inc. is no longer appropriate for the determination of the reference interest rate, then an alternative method for determination of the reference interest rate adopted by the NAIC and approved by regulation promulgated by the commissioner may be substituted.

Section 5. Reserve Valuation Method—Life Insurance and Endowment Benefits

A. Except as otherwise provided in Sections 5a, 8 and 10, reserves according to the commissioners reserve valuation method, for the life insurance and endowment benefits of policies providing for a uniform amount of insurance and requiring the payment of uniform premiums shall be the excess, if any, of the present value, at the date of valuation, of the future guaranteed benefits provided for by those policies, over the then present value of any future modified net premiums therefor. The modified net premiums for a policy shall be the uniform percentage of the respective contract premiums for the benefits such that the present value, at the date of issue of the policy, of all modified net premiums shall be equal to the sum of the then present value of the benefits provided for by the policy and the excess of (1) over (2), as follows:

(1) A net level annual premium equal to the present value, at the date of issue, of the benefits provided for after the first policy year, divided by the present value, at the date of issue, of an annuity of one per annum payable on the first and each subsequent anniversary of the policy on which a premium falls due. However, the net level annual premium shall not exceed the net level annual premium on the nineteen-year premium whole life plan for insurance of the same amount at an age one year higher than the age at issue of the policy.

(2) A net one-year term premium for the benefits provided for in the first policy year.

B. For a life insurance policy issued on or after January 1, 19[ ] [insert the fourth calendar year commencing after the effective date of the 1980 NAIC amendments to the Standard Valuation Law] for which the contract premium in the first policy year exceeds that of the second year and for which no comparable additional benefit is provided in the first year for the excess and which provides an endowment benefit or a cash surrender value or a combination in an amount greater than the excess premium, the reserve according to the commissioners reserve valuation method as of any policy anniversary occurring on or before the assumed ending date defined herein as the first policy anniversary on which the sum of any endowment benefit and any cash surrender value then available is greater than the excess premium shall, except as otherwise provided in Section 8, be the greater of the reserve as of the policy anniversary calculated as described in the preceding paragraph and the reserve as of the policy anniversary calculated as described in that paragraph, but with (i) the value defined in subsection A of that paragraph being reduced by fifteen percent (15%) of the amount of such excess first year premium, (ii) all present values of benefits and premiums being determined without reference to premiums or benefits provided for by the policy after the assumed ending date, (iii) the policy being assumed to mature on that date as an endowment, and (iv) the cash surrender
value provided on that date being considered as an endowment benefit. In making the above comparison the mortality and interest bases stated in Sections 4 and 4b shall be used.

Drafting Note: The date inserted should remain unchanged from the one appearing in the State’s existing Standard Valuation Law.

C. Reserves according to the commissioners reserve valuation method shall be calculated by a method consistent with the principles of the preceding paragraphs of this section for:

(1) Life insurance policies providing for a varying amount of insurance or requiring the payment of varying premiums;

(2) Group annuity and pure endowment contracts purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer (including a partnership or sole proprietorship) or by an employee organization, or by both, other than a plan providing individual retirement accounts or individual retirement annuities under Section 408 of the Internal Revenue Code, as now or hereafter amended;

(3) Disability and accidental death benefits in all policies and contracts; and

(4) All other benefits, except life insurance and endowment benefits in life insurance policies and benefits provided by all other annuity and pure endowment contracts.

Section 5a. Reserve Valuation Method—Annuity and Pure Endowment Benefits

A. This section shall apply to all annuity and pure endowment contracts other than group annuity and pure endowment contracts purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer (including a partnership or sole proprietorship) or by an employee organization, or by both, other than a plan providing individual retirement accounts or individual retirement annuities under Section 408 of the Internal Revenue Code, as now or hereafter amended.

B. Reserves according to the commissioners annuity reserve method for benefits under annuity or pure endowment contracts, excluding any disability and accidental death benefits in the contracts, shall be the greatest of the respective excesses of the present values, at the date of valuation, of the future guaranteed benefits, including guaranteed nonforfeiture benefits, provided for by the contracts at the end of each respective contract year, over the present value, at the date of valuation, of any future valuation considerations derived from future gross considerations, required by the terms of the contract, that become payable prior to the end of the respective contract year. The future guaranteed benefits shall be determined by using the mortality table, if any, and the interest rate, or rates, specified in the contracts for determining guaranteed benefits. The valuation considerations are the portions of the respective gross considerations applied under the terms of the contracts to determine nonforfeiture values.

Section 6. Minimum Reserves
A. In no event shall a company’s aggregate reserves for all life insurance policies, excluding disability and accidental death benefits, issued on or after [insert original effective date of the Standard Valuation Law in this State], be less than the aggregate reserves calculated in accordance with the methods set forth in Sections 5, 5a, 8 and 9 and the mortality table or tables and rate or rates of interest used in calculating nonforfeiture benefits for the policies.

B. In no event shall the aggregate reserves for all policies, contracts and benefits be less than the aggregate reserves determined by the appointed actuary to be necessary to render the opinion required by Section 3.

Drafting Note: The date inserted should remain unchanged from the one appearing in the State’s existing Standard Valuation Law.

Section 7. Optional Reserve Calculation

A. Reserves for policies and contracts issued prior to [insert original effective date of the Standard Valuation Law in this State] may be calculated, at the option of the company, according to any standards that produce greater aggregate reserves for all such policies and contracts than the minimum reserves required by the laws in effect immediately prior to that date.

B. Reserves for any category of policies, contracts or benefits established by the commissioner, issued on or after [insert original effective date of the Standard Valuation Law in this State], may be calculated, at the option of the company, according to any standards that produce greater aggregate reserves for the category than those calculated according to the minimum standard provided herein, but the rate or rates of interest used for policies and contracts, other than annuity and pure endowment contracts, shall not be greater than the corresponding rate or rates of interest used in calculating any nonforfeiture benefits provided in the policies or contracts.

C. A company, which adopts at any time a standard of valuation producing greater aggregate reserves than those calculated according to the minimum standard provided under this Act, may adopt a lower standard of valuation with the approval of the commissioner, but not lower than the minimum provided herein; provided that, for the purposes of this section, the holding of additional reserves previously determined by the appointed actuary to be necessary to render the opinion required by Section 3 shall not be deemed to be the adoption of a higher standard of valuation.

Drafting Note: The dates inserted should remain unchanged from those appearing in the State’s existing Standard Valuation Law.

Section 8. Reserve Calculation—Valuation Net Premium Exceeding the Gross Premium Charged

If in any contract year the gross premium charged by a company on a policy or contract is less than the valuation net premium for the policy or contract calculated by the method used in calculating the reserve but using the minimum valuation standards of mortality and rate of interest, the minimum reserve required for the policy or contract shall be the greater of either the reserve calculated according to the mortality table, rate of interest, and method actually used for the policy or contract, or the reserve calculated by the method actually used for the policy or contract but using the minimum valuation standards of mortality and rate of interest and replacing the valuation net premium by the actual gross premium in each contract year for which the valuation net premium...
exceeds the actual gross premium. The minimum valuation standards of mortality and rate of interest referred to in this section are those standards stated in Sections 4 and 4b.

For a life insurance policy issued on or after January 1, 19[ ] [insert the fourth calendar year commencing after the effective date of the 1980 NAIC amendments to the Standard Valuation Law] for which the gross premium in the first policy year exceeds that of the second year and for which no comparable additional benefit is provided in the first year for the excess and which provides an endowment benefit or a cash surrender value or a combination in an amount greater than the excess premium, the provisions of this section shall be applied as if the method actually used in calculating the reserve for the policy were the method described in Section 5, ignoring the second paragraph of Section 5. The minimum reserve at each policy anniversary of such a policy shall be the greater of the minimum reserve calculated in accordance with Section 5, including the second paragraph of that section, and the minimum reserve calculated in accordance with this section.

Drafting Note: The date inserted should remain unchanged from the one appearing in the State’s existing Standard Valuation Law.

Section 9. Reserve Calculation—Indeterminate Premium Plans

In the case of a plan of life insurance that provides for future premium determination, the amounts of which are to be determined by the insurance company based on then estimates of future experience, or in the case of a plan of life insurance or annuity that is of such a nature that the minimum reserves cannot be determined by the methods described in Sections 5, 5a and 8, the reserves that are held under the plan shall:

A. Be appropriate in relation to the benefits and the pattern of premiums for that plan; and

B. Be computed by a method that is consistent with the principles of this Standard Valuation Law, as determined by regulations promulgated by the commissioner.

Drafting Note: If desired the following paragraph may be added.

“Notwithstanding any other provision in the laws of this State, a policy, contract or certificate providing life insurance under such a plan shall be affirmatively approved by the commissioner before it can be marketed, issued, delivered or used in this State.”

If the previous paragraph is enacted in a State where prior filing and approval of life insurance policy forms has not been previously required by statute, this paragraph would mandate such action for plans requiring approval under Section 9. If the previous paragraph is enacted in a State where approval is deemed under certain circumstances, the deemed provision would be overridden by the terms of this section. In some States specific reference must be made to any statutory provision that is overridden.

Section 10. Minimum Standard for Accident and Health Insurance Contracts

For accident and health insurance contracts issued on or after the operative date of the valuation manual, the standard prescribed in the valuation manual is the minimum standard of valuation required under Section 2B. For [disability, accident and sickness, accident and health] insurance contracts issued on or after [insert the original effective date of the Standard Valuation Law in the State] and prior to the operative date of the valuation manual the minimum standard of valuation is the standard adopted by the commissioner by regulation.

Drafting Note: States should substitute their state specific terminology for accident and health contracts in place of the bracketed terms. However, it is critical that each state retain the terms “accident and health” in the title and first sentence
of this section because the term is specifically defined for purposes of the standard valuation law and applicability of the valuation manual standards for such contracts issued on or after the operative date of the valuation manual.

Section 11. Valuation Manual for Policies Issued On or After the Operative Date of the Valuation Manual

A. For policies issued on or after the operative date of the valuation manual, the standard prescribed in the valuation manual is the minimum standard of valuation required under Section 2B, except as provided under Paragraphs E or G of this section.

B. The operative date of the valuation manual is January 1 of the first calendar year following the first July 1 as of which all of the following have occurred:

(1) The valuation manual has been adopted by the NAIC by an affirmative vote of at least forty-two (42) members, or three-fourths of the members voting, whichever is greater.

(2) The Standard Valuation Law, as amended by the NAIC in 2009, or legislation including substantially similar terms and provisions, has been enacted by States representing greater than 75% of the direct premiums written as reported in the following annual statements submitted for 2008: life, accident and health annual statements; health annual statements; or fraternal annual statements.

(3) The Standard Valuation Law, as amended by the NAIC in 2009, or legislation including substantially similar terms and provisions, has been enacted by at least forty-two (42) of the following fifty-five (55) jurisdictions: The fifty States of the United States, American Samoa, the American Virgin Islands, the District of Columbia, Guam, and Puerto Rico.

C. Unless a change in the valuation manual specifies a later effective date, changes to the valuation manual shall be effective on January 1 following the date when [all of the following have occurred]:

(1) The change to the valuation manual has been adopted by the NAIC by an affirmative vote representing:

   (a) At least three-fourths (3/4) of the members of the NAIC voting, but not less than a majority of the total membership, and

   (b) Members of the NAIC representing jurisdictions totaling greater than 75% of the direct premiums written as reported in the following annual statements most recently available prior to the vote in Subsection C(1)(a): life, accident and health annual statements, health annual statements, or fraternal annual statements.

Drafting Note: The following section is optional:

(2) The valuation manual becomes effective pursuant to [an order of] [regulation adopted by] the commissioner.

D. The valuation manual must specify all of the following:
(1) Minimum valuation standards for and definitions of the policies or contracts subject to Section 2B. Such minimum valuation standards shall be:

(a) The commissioners reserve valuation method for life insurance contracts, other than annuity contracts, subject to Section 2B;

(b) The commissioners annuity reserve valuation method for annuity contracts subject to Section 2B; and

(c) Minimum reserves for all other policies or contracts subject to Section 2B.

(2) Which policies or contracts or types of policies or contracts that are subject to the requirements of a principle-based valuation in Section 12A and the minimum valuation standards consistent with those requirements;

(3) For policies and contracts subject to a principle-based valuation under Section 12:

(a) Requirements for the format of reports to the commissioner under Section 12B(3) and which shall include information necessary to determine if the valuation is appropriate and in compliance with this Act;

(b) Assumptions shall be prescribed for risks over which the company does not have significant control or influence.

(c) Procedures for corporate governance and oversight of the actuarial function, and a process for appropriate waiver or modification of such procedures.

(4) For policies not subject to a principle-based valuation under Section 12 the minimum valuation standard shall either

(a) Be consistent with the minimum standard of valuation prior to the operative date of the valuation manual; or

(b) Develop reserves that quantify the benefits and guarantees, and the funding, associated with the contracts and their risks at a level of conservatism that reflects conditions that include unfavorable events that have a reasonable probability of occurring.

Drafting Note: The wording of 11D(4)(b) does not preclude, for policies with significant tail risk, reflecting in the reserve conditions appropriately adverse to quantify the tail risk.

(5) Other requirements, including, but not limited to, those relating to reserve methods, models for measuring risk, generation of economic scenarios, assumptions, margins, use of company experience, risk measurement, disclosure, certifications, reports, actuarial opinions and memorandums, transition rules and internal controls; and
(6) The data and form of the data required under Section 13, with whom the data must be submitted, and may specify other requirements including data analyses and reporting of analyses.

E. In the absence of a specific valuation requirement or if a specific valuation requirement in the valuation manual is not, in the opinion of the commissioner, in compliance with this Act, then the company shall, with respect to such requirements, comply with minimum valuation standards prescribed by the commissioner by regulation.

F. The commissioner may engage a qualified actuary, at the expense of the company, to perform an actuarial examination of the company and opine on the appropriateness of any reserve assumption or method used by the company, or to review and opine on a company's compliance with any requirement set forth in this Act. The commissioner may rely upon the opinion, regarding provisions contained within this Act, of a qualified actuary engaged by the commissioner of another State, district or territory of the United States. As used in this paragraph, term "engage" includes employment and contracting.

G. The commissioner may require a company to change any assumption or method that in the opinion of the commissioner is necessary in order to comply with the requirements of the valuation manual or this Act; and the company shall adjust the reserves as required by the commissioner. The commissioner may take other disciplinary action as permitted pursuant to [insert applicable law].

Drafting Note: This section is intended to conform to the State's administrative procedures, including notice and due process.

Drafting Note: Section 11 presumes that each State is permitted under their State laws to "adopt" the valuation manual in a manner similar to how the Accounting Practices and Procedures Manual becomes effective in many States, without a separate regulatory process such as adoption by regulation. It is desirable that all States adopt the valuation manual requirements and that such adoption be achieved without a separate State regulatory process in order to achieve uniformity of reserve standards in all States. However, to the extent that a State may need to adopt the valuation manual through a formal State regulatory process, Sections 11B and/or 11C may be amended to reflect any State's need to adopt the valuation manual through regulation.

Section 12. Requirements of a Principle-Based Valuation

A. A company must establish reserves using a principle-based valuation that meets the following conditions for policies or contracts as specified in the valuation manual:

(1) Quantify the benefits and guarantees, and the funding, associated with the contracts and their risks at a level of conservatism that reflects conditions that include unfavorable events that have a reasonable probability of occurring during the lifetime of the contracts. For policies or contracts with significant tail risk, reflects conditions appropriately adverse to quantify the tail risk.

(2) Incorporate assumptions, risk analysis methods and financial models and management techniques that are consistent with, but not necessarily identical to, those utilized within the company's overall risk assessment process, while recognizing potential differences in financial reporting structures and any prescribed assumptions or methods.
Standard Valuation Law

(3) Incorporate assumptions that are derived in one of the following manners:

(a) The assumption is prescribed in the valuation manual.

(b) For assumptions that are not prescribed, the assumptions shall:

(i) Be established utilizing the company’s available experience, to the extent it is relevant and statistically credible; or

(ii) To the extent that company data is not available, relevant, or statistically credible, be established utilizing other relevant, statistically credible experience.

(4) Provide margins for uncertainty including adverse deviation and estimation error, such that the greater the uncertainty the larger the margin and resulting reserve.

B. A company using a principle-based valuation for one or more policies or contracts subject to this section as specified in the valuation manual shall:

(1) Establish procedures for corporate governance and oversight of the actuarial valuation function consistent with those described in the valuation manual.

(2) Provide to the commissioner and the board of directors an annual certification of the effectiveness of the internal controls with respect to the principle-based valuation. Such controls shall be designed to assure that all material risks inherent in the liabilities and associated assets subject to such valuation are included in the valuation, and that valuations are made in accordance with the valuation manual. The certification shall be based on the controls in place as of the end of the preceding calendar year.

(3) Develop, and file with the commissioner upon request, a principle-based valuation report that complies with standards prescribed in the valuation manual.

C. A principle-based valuation may include a prescribed formulaic reserve component.

Section 13. Experience Reporting for Policies In Force On or After the Operative Date of the Valuation Manual

A company shall submit mortality, morbidity, policyholder behavior, or expense experience and other data as prescribed in the valuation manual.

Section 14. Confidentiality

A. For purposes of this Section 14, “Confidential Information” shall mean:

(1) A memorandum in support of an opinion submitted under Section 3 of this Act and any other documents, materials and other information, including, but not limited to, all working papers, and copies thereof, created, produced or obtained by or disclosed to the commissioner or any other person in connection with such memorandum;
(2) All documents, materials and other information, including, but not limited to, all working papers, and copies thereof, created, produced or obtained by or disclosed to the commissioner or any other person in the course of an examination made under Section 11F of this Act; provided, however, that if an examination report or other material prepared in connection with an examination made under the [insert reference to examination law] is not held as private and confidential information under the [insert reference to examination law], an examination report or other material prepared in connection with an examination made under Section 11F of this Act shall not be “Confidential Information” to the same extent as if such examination report or other material had been prepared under the [insert reference to examination law].

(3) Any reports, documents, materials and other information developed by a company in support of, or in connection with, an annual certification by the company under Section 12B(2) of this Act evaluating the effectiveness of the company's internal controls with respect to a principle-based valuation and any other documents, materials and other information, including, but not limited to, all working papers, and copies thereof, created, produced or obtained by or disclosed to the commissioner or any other person in connection with such reports, documents, materials and other information;

(4) Any principle-based valuation report developed under Section 12B(3) of this Act and any other documents, materials and other information, including, but not limited to, all working papers, and copies thereof, created, produced or obtained by or disclosed to the commissioner or any other person in connection with such report; and

(5) Any documents, materials, data and other information submitted by a company under Section 13 of this Act (collectively, “experience data”) and any other documents, materials, data and other information, including, but not limited to, all working papers, and copies thereof, created or produced in connection with such experience data, in each case that include any potentially company-identifying or personally identifiable information, that is provided to or obtained by the commissioner (together with any “experience data”, the “experience materials”) and any other documents, materials, data and other information, including, but not limited to, all working papers, and copies thereof, created, produced or obtained by or disclosed to the commissioner or any other person in connection with such experience materials.

B. Privilege for, and Confidentiality of, Confidential Information

(1) Except as provided in this Section 14, a company’s Confidential Information is confidential by law and privileged, and shall not be subject to [insert open records, freedom of information, sunshine or other appropriate phrase], shall not be subject to subpoena and shall not be subject to discovery or admissible in evidence in any private civil action; provided, however, that the commissioner is authorized to use the Confidential Information in the furtherance of any regulatory or legal action brought against the company as a part of the commissioner’s official duties.
(2) Neither the commissioner nor any person who received Confidential Information while acting under the authority of the commissioner shall be permitted or required to testify in any private civil action concerning any Confidential Information.

(3) In order to assist in the performance of the commissioner’s duties, the commissioner may share Confidential Information (a) with other state, federal and international regulatory agencies and with the NAIC and its affiliates and subsidiaries and (b) in the case of Confidential Information specified in Sections 14A(1) and 14A(4) only, with the Actuarial Board for Counseling and Discipline or its successor upon request stating that the Confidential Information is required for the purpose of professional disciplinary proceedings and with state, federal and international law enforcement officials; in the case of (a) and (b), provided that such recipient agrees, and has the legal authority to agree, to maintain the confidentiality and privileged status of such documents, materials, data and other information in the same manner and to the same extent as required for the commissioner.

**Drafting Note:** Subsection B(3) assumes the recipient has the authority to protect the applicable confidentiality or privilege, but does not address the verification of that authority, which would presumably occur in the context of a broader information sharing agreement.

(4) The commissioner may receive documents, materials, data and other information, including otherwise confidential and privileged documents, materials, data or information, from the NAIC and its affiliates and subsidiaries, from regulatory or law enforcement officials of other foreign or domestic jurisdictions and from the Actuarial Board for Counseling and Discipline or its successor and shall maintain as confidential or privileged any document, material, data or other information received with notice or the understanding that it is confidential or privileged under the laws of the jurisdiction that is the source of the document, material or other information.

(5) The commissioner may enter into agreements governing sharing and use of information consistent with this Section 14B.

(6) No waiver of any applicable privilege or claim of confidentiality in the Confidential Information shall occur as a result of disclosure to the commissioner under this section or as a result of sharing as authorized in Section 14B(3).

(7) A privilege established under the law of any state or jurisdiction that is substantially similar to the privilege established under this Section 14B shall be available and enforced in any proceeding in, and in any court of, this State.

(8) In this Section 14 “regulatory agency,” “law enforcement agency” and the “NAIC” include, but are not limited to, their employees, agents, consultants and contractors.

C. Notwithstanding Section 14B, any Confidential Information specified in Sections 14A(1) and 14A(4):

(1) May be subject to subpoena for the purpose of defending an action seeking damages from the appointed actuary submitting the related memorandum in
support of an opinion submitted under Section 3 of this Act or principle-based valuation report developed under Section 12B(3) of this Act by reason of an action required by this Act or by regulations promulgated hereunder;

(2) May otherwise be released by the commissioner with the written consent of the company; and

(3) Once any portion of a memorandum in support of an opinion submitted under Section 3 of this Act or a principle-based valuation report developed under Section 12B(3) of this Act is cited by the company in its marketing or is publicly volunteered to or before a governmental agency other than a state insurance department or is released by the company to the news media, all portions of such memorandum or report shall no longer be confidential.

Drafting Note: The following section is optional:

[Section 15. Single State Exemption]

A. The commissioner may exempt specific product forms or product lines of a domestic company that is licensed and doing business only in [Name of State] from the requirements of Section 11 provided:

(1) The commissioner has issued an exemption in writing to the company and has not subsequently revoked the exemption in writing; and

(2) The company computes reserves using assumptions and methods used prior to the operative date of the valuation manual in addition to any requirements established by the commissioner and promulgated by regulation.

B. For any company granted an exemption under this section, Sections 3, 4, 4a, 4b, 5, 5a, 6, 7, 8, 9 and 10 shall be applicable. With respect to any company applying this exemption, any reference to Section 11 found in Sections 3, 4, 4a, 4b, 5, 5a, 6, 7, 8, 9 and 10 shall not be applicable.]

Section [15 or16]. Effective Date

All acts and parts of acts inconsistent with the provision of this Act are hereby repealed as of [insert original effective date of the Standard Valuation Law in this State]. This Act shall take effect [insert original effective date of the Standard Valuation Law in this State].

Drafting Note: A state that has adopted specific valuation standards, other than the SVL, will need to review those standards and make changes if needed in order for the valuation manual standards to apply (such as sunsetting the specific State standard on the operative date of the valuation manual or subsequent changes to the valuation manual).

Chronological Summary of Action (all references are to the Proceedings of the NAIC)


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Attachment Two

Standard Valuation Law

2009 Proc. 3rd Quarter (amended and reprinted).

W:\National Meetings\2014\Fall\TF\PBR\MO820 SVL Substantially Similar.pdf
## PBR Implementation State Survey

for states that have adopted a revised SVL

**AZ, CT, FL, HI, IN, IA, ME, MI, MS, NE, NH, NJ, NM, OH, OK, RI, TN, VA, WV**

### Which Deviations were adopted?

<table>
<thead>
<tr>
<th>State</th>
<th>Submitter</th>
<th>Did State Adopt Model Law #820 without Deviation</th>
<th>If No, following questions were answered:</th>
<th>Premium Based</th>
<th>Product Exemption not in VM</th>
<th>Applicability of PBR Retroactively</th>
<th>Any Other Deviations</th>
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<td>Pete Weber</td>
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**Connecticut's confidentiality rules are "substantially similar, but definitely not exactly the same. The definition of qualified actuary is slight different as well. The overall layout of the entire SVL looks very different but if you take the time to line things up with the Model SVL, you can see that it is substantially similar."**

**We attempted to adopt the SVL with no deviations, but the way it fit into our law was piecemeal. We do not have a specific exemption for small companies, but we could adopt the small company exemption through regulation if we agree with it.**
<table>
<thead>
<tr>
<th>State</th>
<th>Submitter</th>
<th>What is state plan for adoption of Model #820?</th>
<th>If Plan to Adopt:</th>
<th>Which Year Does State Plan to revise your SVL?</th>
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<td>Edward Moody</td>
<td>Plans to Adopt Without Modification</td>
<td></td>
<td>2015</td>
</tr>
<tr>
<td>OR</td>
<td>Russell Latham</td>
<td>Plans to Adopt Without Modification</td>
<td></td>
<td>2015</td>
</tr>
<tr>
<td>PA</td>
<td>Jodi Frantz</td>
<td>Plan to Adopt With Some Modification</td>
<td></td>
<td>Unsure; likely before 2016</td>
</tr>
<tr>
<td>PR</td>
<td>Ruben Gely</td>
<td>Do not plan to adopt for this reason: According to historical and expected trends, as well as the profile of products issued by Domestics life insurers, the implementation of Model Law 820 would not have a significant impact in our industry. Therefore, our plans are to continue to use Rule 48 Part A of the Regulation of the Insurance Code of Puerto Rico and Chapter 5 of the Insurance Code of Puerto Rico.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SC</td>
<td>Andrew Dvorine</td>
<td>Plans to Adopt Without Modification</td>
<td></td>
<td>Unsure, but likely before 2019</td>
</tr>
<tr>
<td>SD</td>
<td>Johanna Nickelson</td>
<td>Plans to Adopt Without Modification</td>
<td></td>
<td>2015</td>
</tr>
<tr>
<td>TX</td>
<td>Mike Boerner</td>
<td>Plans to Adopt Without Modification</td>
<td></td>
<td>2015</td>
</tr>
<tr>
<td>UT</td>
<td>Tomasz Serbinowski</td>
<td>Plans to Adopt With Some Modification</td>
<td></td>
<td>Unsure; likely before 2019</td>
</tr>
<tr>
<td>VT</td>
<td>Kaj Samson</td>
<td>Plans to Adopt Without Modification</td>
<td></td>
<td>2015</td>
</tr>
<tr>
<td>WA</td>
<td>Scott Fitzpatrick</td>
<td>Plans to Adopt Without Modification</td>
<td></td>
<td>2015</td>
</tr>
<tr>
<td>WI</td>
<td>Rebecca Easland</td>
<td>Plans to Adopt Without Modification</td>
<td></td>
<td>Unsure, but likely before 2016</td>
</tr>
<tr>
<td>WY</td>
<td>Linda Johnson</td>
<td>Do not plan to adopt for this reason: We are waiting for more information to become available, including the small company exemption language.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## PBR Implementation State Survey

### For states that have not yet adopted a revised SVL

(All states other than AZ, CT, FL, HI, IN, IA, LA, ME, MI, MS, NE, NH, NJ, NM, OH, OK, RI, TN, VA, WV)

<table>
<thead>
<tr>
<th>State</th>
<th>Premium Based (if yes, provide Driving Force, Premium Level for Exclusion &amp; Wording for Exemption):</th>
<th>Product Exemption not in VM (if yes, provide Driving Force &amp; Planned Exemption):</th>
</tr>
</thead>
<tbody>
<tr>
<td>AL</td>
<td>Domestic Company 300m/600m</td>
<td>Exempted from the VM Exclusion Tests</td>
</tr>
<tr>
<td>AK</td>
<td>N/A</td>
<td>Other - Not yet developed, waiting for PBR/ITF resolution</td>
</tr>
<tr>
<td>AR</td>
<td>Regulators Other - 300m/1B</td>
<td>Exempted from the VM Entirely</td>
</tr>
<tr>
<td>CA</td>
<td>No</td>
<td>Exempted from the VM Exclusion Tests</td>
</tr>
<tr>
<td>CO</td>
<td>No</td>
<td>Exempted from the VM Exclusion Tests</td>
</tr>
<tr>
<td>DE</td>
<td>Not Yet Received</td>
<td>Exempted from the VM Exclusion Tests</td>
</tr>
<tr>
<td>DC</td>
<td>No</td>
<td>Exempted from the VM Exclusion Tests</td>
</tr>
<tr>
<td>GA</td>
<td>Regulators Other - 300m/1B</td>
<td>Exempted from the VM Exclusion Tests</td>
</tr>
<tr>
<td>ID</td>
<td>ACLI Other - 300m/1B</td>
<td>Exempted from the VM Exclusion Tests</td>
</tr>
<tr>
<td>IL</td>
<td>Other - IL Life Insurance Council Other - 300m/1B</td>
<td>Exempted from the VM Entirely</td>
</tr>
<tr>
<td>KY</td>
<td>Domestic Company 300m/600m</td>
<td>Exempted from the VM Entirely</td>
</tr>
<tr>
<td>MD</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MN</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MO</td>
<td>No</td>
<td>Exempted from the VM Exclusion Tests</td>
</tr>
<tr>
<td>MT</td>
<td>No</td>
<td>Exempted from the VM Exclusion Tests</td>
</tr>
<tr>
<td>NV</td>
<td>No</td>
<td>Exempted from the VM Exclusion Tests</td>
</tr>
<tr>
<td>NY</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NC</td>
<td>Other - ACLI</td>
<td>Exempted from the VM Exclusion Tests</td>
</tr>
<tr>
<td>ND</td>
<td>No</td>
<td>Exempted from the VM Exclusion Tests</td>
</tr>
<tr>
<td>OR</td>
<td>N/A</td>
<td>Exempted from the VM Exclusion Tests</td>
</tr>
<tr>
<td>PA</td>
<td>Domestic Company 300m/600m</td>
<td>Exempted from the VM Entirely</td>
</tr>
<tr>
<td>PR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SC</td>
<td>No</td>
<td>Exempted from the VM Exclusion Tests</td>
</tr>
<tr>
<td>SD</td>
<td>No</td>
<td>Exempted from the VM Exclusion Tests</td>
</tr>
<tr>
<td>TX</td>
<td>No</td>
<td>Exempted from the VM Exclusion Tests</td>
</tr>
<tr>
<td>UT</td>
<td>Regulators Other - 300m/1B</td>
<td>Exempted from the VM Entirely</td>
</tr>
<tr>
<td>VT</td>
<td>No</td>
<td>Exempted from the VM Exclusion Tests</td>
</tr>
<tr>
<td>WA</td>
<td>No</td>
<td>Exempted from the VM Exclusion Tests</td>
</tr>
<tr>
<td>WI</td>
<td>No</td>
<td>Exempted from the VM Exclusion Tests</td>
</tr>
<tr>
<td>WY</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## PBR Implementation State Survey

for states that have not yet adopted a revised SVL

(All states other than AZ, CT, FL, HI, IN, IA, LA, ME, MI, MS, NE, NH, NJ, NM, OH, OK, RI, TN, VA, WV)

<table>
<thead>
<tr>
<th>State</th>
<th>Applicability of PBR Retroactively</th>
<th>Any Other Deviations</th>
</tr>
</thead>
<tbody>
<tr>
<td>AL</td>
<td>No</td>
<td>Nothing major, only minor changes to comply with Alabama statutes.</td>
</tr>
<tr>
<td>AK</td>
<td>N/A</td>
<td>No</td>
</tr>
<tr>
<td>AR</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>CA</td>
<td>No</td>
<td>The bill introduced in the legislature gives the DOI the option to hire consulting actuaries at company expense to assist in the review of the PBR reports.</td>
</tr>
<tr>
<td>CO</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>DE</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>GA</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>ID</td>
<td>No</td>
<td>Possible but not sure at this point</td>
</tr>
<tr>
<td>IL</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>KS</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>KY</td>
<td>No</td>
<td>N/A</td>
</tr>
<tr>
<td>MD</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>MA</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>MN</td>
<td>No</td>
<td>Currently there is a bill in the Missouri Legislature that would revise Missouri law to incorporate model 820 language this year. It is unknown if the current bill will pass or if it will remain in its current form if passed</td>
</tr>
<tr>
<td>MO</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>MT</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>NV</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>NY</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>NC</td>
<td>No</td>
<td>Note: The PBR amendments to the Standard Valuation Law that are being presented to the Legislature currently include a small company exemption as indicated above, at the request of ACLI, who appear to be the most active and supportive stakeholder. However, it is not yet known if including such an exemption in the statute would affect accreditation. Our intent is to act to remove the exemption from the amendments if such a deviation would have a negative impact on accreditation.</td>
</tr>
<tr>
<td>ND</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>OR</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>PA</td>
<td>N/A</td>
<td>Plan to include small company exemption language in the statute itself.</td>
</tr>
<tr>
<td>SC</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>SD</td>
<td>No</td>
<td>Depends what the bill this year brings. DOI will have time to revise prior to any proposed mandate to bring up to national standards. We are confident the bill this year will follow the Model.</td>
</tr>
<tr>
<td>TX</td>
<td>No</td>
<td>Memo: The Texas DOI has recommended to the Texas legislature that it consider adopting the SVL. Ultimately, the legislature determines policy issues of this nature</td>
</tr>
<tr>
<td>UT</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>VT</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>WA</td>
<td>No</td>
<td>The Office of the Insurance Commissioner must provide notice of the operative date of the valuation manual, as referenced in section 21 of this act, to the Office of the Code Reviser and others deemed appropriate by the commissioner.</td>
</tr>
<tr>
<td>WI</td>
<td>No</td>
<td>Our current draft does not deviate from the model. Industry has been pushing for a small company exemption but yet to provide language.</td>
</tr>
<tr>
<td>WY</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>
Introduction

Arising from NAIC adoption of model laws and the first edition of the Valuation Manual (VM), the following outlines additional regulatory and NAIC actions needed to successfully implement principle-based reserving (PBR). This PBR Implementation Plan is needed to modify the regulatory system in order to implement PBR in 2017. Some aspects of this plan call for early pre-implementation action to aid final implementation.

The PBR Implementation Plan provides a framework for implementation and will be a working document to be modified as decisions are made, questions are raised, and deliverables are met. The PBR Implementation (EX) Task Force will complete activities included in this plan or propose charges to other NAIC groups.

The plan comprises the following eight sections:

I. REVIEW PROCESS AND STAFFING
II. Experience Data Collection Process
III. Pre-Implementation and Training
IV. Valuation: Actuarial and Accounting
V. Capital Requirements – RBC
VI. Accreditation
VII. PBR Legislative Packet
VIII. Timeline

I. REVIEW PROCESS AND STAFFING

The development of two major components is recommended to support the review and updating process: an NAIC Actuarial Resource and a PBR Valuation Analysis Working Group (PBR VAWG).

NAIC Actuarial Resource (Resource):

- Consists of actuaries hired on as staff at the NAIC and contracted actuarial consultants and/or modeling experts to supplement resources, as needed.
- Provides support to update examination and financial analysis handbook procedures to promote consistent PBR review.

1The Valuation Manual would become operative 6-18 months after 42 states with at least 75% of subject premium have adopted the revised law. A 2017 implementation date assumes the threshold will be met prior to June 1, 2016.
• Provides PBR analysis and responds to questions from states on companies to be examined or during the course of an examination.
• Provides support and/or analysis to states in reviewing specific companies’ PBR models.
• Supports states, the Life Actuarial (A) Task Force, and the Valuation Analysis Working Group (VAWG) (as defined below) for issues and questions regarding PBR and asset adequacy analysis.
• Provides analysis and recommendations to the Life Actuarial (A) Task Force for PBR / asset adequacy analysis questions/issues and support for any Valuation Manual changes or interpretations.

Through ongoing communication with regulators, industry and interested parties, the Resource will facilitate the refinement, revision, development, and implementation of PBR reserve requirements and review of models as necessary. For example, the process will address the need to adjust margins as appropriate to maintain conservatism, to recognize improvements in modeling techniques, or to affect changes in assumptions due to emerging experience.

New NAIC Working Group – PBR Valuation Analysis Working Group (VAWG):

The recommended PBR VAWG would operate much like the Financial Analysis (E) Working Group (FAWG), with the Resource providing significant support to allow the working group to work collaboratively with insurance department regulators (actuaries, analysts, and examiners) by doing the following:

• Responding to states in a confidential forum regarding issues and questions arising during the course of annual PBR reviews or PBR examinations.
• Utilizing the Resource to assist in responding to issues and questions.
• Relying on the Resource to maintain documentation and the database mentioned above to support consistent judgment and treatment of PBR questions and issues.
• Referring questions and issues requiring changes in the VM or interpretations added to the VM to LATF, as appropriate.

Aims of the PBR VAWG would be to minimize reviews by multiple states and encourage consistent application of standards.

Example of Initial Use of Resource and PBR VAWG:
• Prior to the PBR operative date, Resource works with regulators to develop Financial Analysis Handbook procedures, financial examination procedures for PBR, and PBR VAWG procedures. Some automation tools and supplemental procedures may also be developed and referenced by these financial analysis and examination procedures. In addition to other objectives, these procedures and tools are intended to provide reasonably consistent PBR reviews.
• Domestic states can trigger the portion of the SVL to require an actuarial examination of a company.
• For companies coming up for examination, Resource reviews PBR annual report and any available actuarial reviews and provides analysis and recommendations to the domestic state.
• Resource is available to answer questions but will make use of the PBR VAWG as appropriate depending on the issue/question. Q&A will be maintained and appropriately communicated.
• States can also pose questions/issues to the PBR VAWG during the course of any PBR annual review or examination using a formal submission form or by raising a question for initial discussion.
• As mentioned above the Resource will maintain documentation to support consistency in the regulatory review of PBR which would be accessible by states.
• Consider development of regulatory guidance on PBR model expectations.

The number of life actuaries at the state and at the NAIC needed to support the PBR review process will be driven by a variety of factors and will likely be phased in over time as needs arise. The initial recommendation for NAIC staffing would be to add two NAIC actuaries to support the process of ramping up for PBR implementation in other areas identified in this plan. As states are better able to discern their resource needs and their ability to get additional resources, the number of NAIC actuaries might need to be adjusted. Current expectations are that the NAIC will need five actuaries. Continual monitoring and assessment of the PBR process will be necessary to establish the longer-term estimates of actuarial needs. The NAIC and states should also retain computer modeling specialists in order to oversee and test reserve calculations within PBR models.

Standardized Financial Reporting and Analysis Tools

In order to accommodate the changes from PBR, a number of changes will need to be made to the NAIC life, accident and health annual statement blank and the NAIC health annual statement blank. Changes need to be incorporated to existing schedules; plus new schedules for experience reporting will have to be developed. More granularity of product information than currently exists will be needed.

The VM specifies a number of items that are required to be included in both the annual Statement of Actuarial Opinion, which is filed with the annual statement, and the annual actuarial memorandum, which is prepared as a confidential report and submitted to regulators when requested. Capturing confidential data for use in data analysis will be an important step. Determining the amount of public versus confidential data to be reported for solvency monitoring and prioritization will be an ongoing discussion.

Updates to existing NAIC automated financial analysis and prioritization tools will be needed, and new analysis tools to assist with evaluating models and their inputs need to be developed. The resulting tools, along with analysis of company experience data, will assist with identification of companies whose reserves may require more thorough review. A plan is needed to detail the identification and handling of companies that may be deemed by PBR VAWG as “outliers.” That plan should include evaluation of the company’s data and support of their “outlier” assumption. Companies deemed as “outliers” resulting in a financial concern may be referred to FAWG for additional follow-up.

Staff hired for the Resource would be assigned to assist existing or new staff in this development of tools and additional reporting needed.

2015 CHARGES:

The PBR Review (EX) Working Group of the PBR Implementation (EX) Task Force will:

• Coordinate financial analysis, examination and actuarial review procedures and do the following:
  o Develop a framework (or blueprint) for the development of risk-focused examination (analysis/examination/actuarial) procedures for PBR, aiming for coordination and consistency of all such activities.—Essential
    ▪ Recommend uniform PBR review processes and frequency of reviews.

Comment [DK7]: Deleted section about “initial recommendation for NAIC staffing”.
Comment [DK8]: Deleted section about taking state surveys. The expectation is that surveys will be identified and conducted as needed.
Comment [DK9]: Updated all charges in the document with the 2015 adopted charges. No changes are recommended to 2015 charges.
- Avoid duplication of work (including duplication of financial statement auditor work).
- Consider the process of communication between domestic states and market states (or non-domestic states where the company has significant market share).
- Discuss implementation of the framework (or blueprint) over time. Assess whether NAIC proposals take due consideration of the multitude of safeguards and controls already incorporated in requirements (e.g., documentation requirements, internal controls, linkage to risk management, corporate governance, and audited financials).
- Inform the Principle-Based Reserving Implementation (EX) Task Force of training needs and provide potential case studies to aid training. Specifically, evaluate training and/or resource needs for modeling.
- Cooperate with the Examination Oversight (E) Task Force to develop financial examination procedures for pre-implementation review during on-site exams to look at a company’s PBR preparation. The examiner should review plans, procedures, systems, enterprise risk management (ERM), and corporate governance around PBR development.
- Support the Principle-Based Reserving Implementation (EX) Task Force in pre-implementation efforts, including any pilot projects and analysis needed to inform the Task Force and other regulators.
  - Draft charges and operating procedures for a new PBR Valuation Analysis (E) Working Group, using Financial Analysis (E) Working Group charges and procedures as a guide. Consideration should be given to the following issues.—Essential
    - Recommend ideal (regulatory-only) membership of PBR Valuation Analysis (E) Working Group (e.g., actuaries, accountants, valuation actuaries, SOA actuaries, and/or any regulators) and any participatory role of consultants and outside parties. Determine the frequency of meetings and how specific referrals and issues can be provided.
    - Coordinate with the NAIC staff resources regarding companies to review (e.g., “nationally significant,” universal life products, triggers regarding PBR concerns, etc.)
    - Respond to the states in a confidential forum regarding issues and questions arising during the course of annual PBR reviews or PBR examinations.
    - Recommend NAIC staff responsibilities and confidentiality protocol, using the Financial Analysis (E) Working Group as a guideline.
    - Recommend a process for the state-to-state resolution to be backed by the PBR Valuation Analysis (E) Working Group assistance for resolution, if needed. Determine the role the Financial Analysis (E) Working Group will play in this work.
    - Determine any direct communication with, or presentations from, companies.
  - Develop review tools and propose means to obtain information to support the review. Test the tools and information for usefulness and accuracy.—Essential
    - Create automated tools or identify software that can be used for both financial analysis and actuarial review.
    - Evaluate housing of automated tools and software, especially to create cost savings for the states.
    - Determine what reporting should be required via electronic data submission (e.g., in the PBR Report) to populate automated tools.
    - Investigate existing tools that might be given to, or purchased by, the NAIC.
    - Consider a central repository of information.
    - Consult with the Information Systems (EX1) Task Force regarding tools, databases and storage needs.
    - Respond to requests and provide support to the Principle-Based Reserving Implementation (EX) Task Force in their efforts to determine the role of a statistical agent(s) and recommend procedures, funding and a process for data reporting.
Identify the data and other reporting needs for actuarial review, financial analysis and public transparency. Recommend changes to other NAIC groups to modify the financial statement blanks, financial statement instructions and the Valuation Manual to obtain such needed data and disclosure. Utilize confidentiality where needed, maintaining an ability to share data appropriate for valuation improvements. Consideration should be given to the following areas:

- **Essential**
  - Experience reporting.
  - Blanks reporting.
  - PBR annual report (confidential reporting).

Identify the ideal staffing resources for PBR reviews, including ideal NAIC assistance, as well as any new financial modeling or software reviewers. After review processes are better defined, conduct another PBR state resource survey.—**Essential**

### 2015 CHARGES:

The **Financial Analysis Handbook (E) Working Group** will:

- In compliance with the framework developed by the PBR Review (EX) Working Group:
  - Provide advice to regulators, identifying and judging risk, establishing Level 1 and Level 2 procedures, identifying frequency of model reviews, and documenting some best practices. Address all risks, financial and non-financial (e.g., ERM, board, corporate governance and ORSA).—**Important**
  - Adjust the **Financial Analysis Handbook** to develop principle-based reserving (PBR) changes. —**Important**

The **Financial Examiners Handbook (E) Technical Group** of the Examination Oversight (E) Task Force will:

- In compliance with the framework developed by the PBR Review (EX) Working Group:
  a. Provide advice to regulators, identifying and judging risk, building repositories, evaluating controls, determining the extent of data quality testing (by actuaries and examiners), identifying frequency of model reviews, and documenting some best practices. Address all risks, financial and non-financial (e.g., ERM, board, corporate governance and ORSA).—**Important**
  b. Adjust the **Financial Condition Examiners Handbook** to develop PBR changes.—**Important**

The **Blanks (E) Working Group** will:

- Adjust blanks and instructions to develop principle-based reserving (PBR) reporting under the framework developed by the PBR Review (EX) Working Group.
II. EXPERIENCE REPORTING PROCESS

Defining the Experience Reporting Process

Historically, industry experience tables, such as mortality tables, have been updated on a sporadic and voluntary basis. Experience tables were updated based on voluntary submission of data by a few companies with the cooperation of the American Academy of Actuaries (Academy) and the Society of Actuaries (SOA). PBR will require the collection and validation of individual company data for the development of industry tables and for use in determining the individual company principle-based modeled reserve. For example, this data would be used to validate the credibility of certain modeling assumptions/factors. The SVL changes adopted in 2009 require the submission of data on mortality, morbidity, policyholder behavior, or expense experience and other data as prescribed by the VM2.

Define Data

Initial data to be collected and the associated reporting structure are defined in the Valuation Manual in Section VM-50 and 51. The data relates to life insurance policies, i.e. mortality, policyholder behavior, and expenses. Data collection is expected to be expanded to include annuity and accident and health data in the future. These future phases will require defining the experience data needed for the particular business.

Data Collection and Dissemination Process

The data collection and dissemination process will need to be further detailed and statistical agent(s) will need to be selected. States have been surveyed regarding legal authority, etc. NAIC Legal staff will evaluate the survey results and will propose a data collection process.

The framework for the process should be established quickly, addressing the following issues:

1. Coordination – Establish a formal process and timeline for the collection of various elements of company experience data. The timeline should include a gradual, phased rollout of the entire process when there is extensive information systems work.
2. Cost control – Consider ways to control costs. Require reporting of data fields only if needed and at the frequency needed. Evaluate statistical agent costs.
3. Dissemination - Once the data is collected, the data will need to be reviewed and adjusted for quality purposes and then compiled into industry exhibits for companies to use in their PBR credibility processes. Consider reporting of average results and ranges of experience for industry exhibits.
4. Expenses – Consider how to fund such a process and allocate expenses fairly.

Development of the process is informed by statistical data projects in New York and Kansas. Approximately 55 companies have been submitting data to New York since 2010, representing roughly 40% of the subject premium from direct writings and reinsurers in the entire U.S. market. Less than 52 companies comprising less than 43% of the Kansas market will report to Kansas in 2013. Combined the data collected represents 70-80% of life insurance premium nationwide. The NAIC will leverage the New York and Kansas experience in collecting statistical data during PBR implementation.

2 The Valuation Manual Experience Reporting Requirements chapter (VM-50) details some of the requirements for statistical data.
The first statistical data collection may need to be in place for annual 2017 reporting. New York has informally indicated willingness to continue their statistical data project until the NAIC processes are in place. Expense mechanisms will be considered for agreed expense allocation, avoiding placing the full reporting burden on New York companies.

The **PBR Implementation (EX) Task Force** will address the experience reporting process including the selection/use of the statistical agent(s), procedures, and funding.

**2015 CHARGES:**
The **Experience Reporting (A) Subgroup** of the Life Actuarial (A) Task Force will:

- Continue development of the experience reporting requirements within the *Valuation Manual* and provide input as appropriate for the process regarding the statistical agent, data collection and subsequent analysis and use of experience submitted.—*Essential*

**III. PRE-IMPLEMENTATION AND TRAINING**

**Pre-Implementation and Initial Stages of Implementation:**

Regulatory and NAIC processes should be established to aid the insurers’ efforts to establish appropriate PBR processes and procedures prior to PBR implementation.

While ongoing or future assessment of PBR compliance might be appropriately conducted via financial examinations, in the initial stages of implementation an early review process should be established to ensure successful implementation. Thorough early review is necessary for companies writing significant amounts of the applicable products, with priority given to review of nationally-significant insurers and those companies with plans for early implementation.

**Training**

A critically important aspect of PBR implementation will be providing training for state insurance department staff responsible for the review and analysis of company PBR modeling and reserves and for others involved in preparing PBR material.

We plan three main areas of training:

1. **Non-Actuarial Regulators:**
   a. An outline for a general overview training program that is targeted toward state analysts and examiners, other non-actuarial insurance regulators, and industry has been prepared. The proposed program would cover overviews of various sections of the VM and topics such as net premium reserves, exclusion tests, modeling and cash flow models, mortality assumptions, policyholder behavior and other key assumptions, documentation and review considerations.
   b. An introductory PBR webinar (Principle-Based Reserving Valuation for Life Products) is available for on-demand viewing.
2. **Actuarial Regulators:**
   a. Regulatory actuaries should participate in the overview for non-actuaries.
   b. Training for regulatory actuaries should expand on the overview topics, providing more detail, and should provide necessary modeling training sufficient to professionally evaluate company filings. PBR webinars are being planned from July to November 2015.
3. Industry & Consulting Actuaries
   a. As specified in charges, the NAIC will ask professional actuarial societies to develop detailed actuarial training for industry and consulting actuaries on specific topics.

Additional training will be required and will need to be developed as further decisions are made to implement PBR. An NAIC actuary should assist with developing training on some VM-specific actuarial topics including examination considerations in a regulator-only training. For example if extensive analyst tools for analysts are developed, additional training would be recommended. Examiners may need more specific training based on the changes to the Financial Condition Examiner’s Handbook. The changes in accounting and reporting would likely be incorporated into currently existing annual webinars, however the topic may warrant specific webinars. It could be beneficial to schedule education following the Society of Actuary’s Valuation Actuary Symposium (i.e. PBR case studies spanning the appointed actuary work, any actuarial reviews, and financial examination). Focus should be on actuarial practice notes and the Financial Examiners Handbook, but could also include discussions about needed improvements in requirements and processes.

2015 CHARGES:
The Principle-Based Reserving Implementation (EX) Task Force will:
   • Maintain and oversee the Principle-Based Reserving (PBR) Implementation Plan.—Essential

As part of that charge, the following activities are assigned to the Principle-Based Reserving Implementation (EX) Task Force (unless otherwise noted):

Regulatory Training:
Train regulators to implement PBR and partner with company representatives and interested parties to prepare for PBR implementation.
1. Identify regulatory educational needs (including modeling and Quick Link education). Basic PBR education should be developed quickly.
2. Develop case studies to present before and after PBR examples.
3. Work with NAIC Staff to develop training courses or use existing NAIC or other courses.
4. Once database and tools are established, train regulators on how to query data and use tools.

Company Outreach:
5. LATF will survey companies to understand products and PBR impact on each company, to discover plans for and timing of implementation and to help prioritize reviews. Optionally, state product actuaries can supplement a survey by providing a list of products offered by each company.
   a. The SOA will present the results of the initial survey that the NAIC and SOA jointly administered in 2014 in mid-2015.
   b. Develop and distribute a subsequent survey once companies are further along in the implementation of PBR. This second survey will be more detailed and technical.
6. Identify company educational needs.
   a. Use the PBR Company Outreach surveys to identify the gaps companies have.
   b. Recommend use of an Academy’s practice note and Actuarial Standards Board’s Actuarial Standards of Practice (ASOP) for PBR, both of which are currently being developed for life products.
7. Work with interested parties to develop company training.
   a. Assist interested parties as they develop training classes in the form of webinars, seminars, sessions, online training and possibly videos.

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b. Work with the SOA and subject matter experts to develop Durable Education Components (DECs) to offer manageable sized training material housed on the SOA’s website.

c. Work with SOA, the Academy and NAIC to encourage that future meetings for these groups include PBR training or update sessions.

8. Recommend pre-implementation procedures for PBR, providing instructions to companies.
   a. Recommend procedures from the SOA PBA Implementation Guide including identifying business requirements, financial reporting requirements and reviewing the current valuation framework to assess what is required for a PBA framework.

9. Consider performing a pilot project, much like that done for ORSA. Document questions/answers or issues that arose in the pilot.
   a. Determine plans for an internal pilot study.
   b. Train regulators to implement PBR and partner with company representatives and interested parties to prepare for PBR implementation.
   c. From this study, advise on the most effective ways to implement the new PBR methodology (to increase understanding and the ease of implementation for the industry). Assist with development of well-defined examination and analysis processes.

NAIC Staffing:
10. Recommend the number of initial NAIC staff to hire for PBR Implementation.

IV. VALUATION: ACTUARIAL AND ACCOUNTING

Principle-based reserving increases precision through the use of multiple variables that are found to differ significantly by insurer, enabling production of a reserve better aligned with the risks in today’s more complex products. Requirements for the reserving process are provided by the VM. Given the amount of requirements and especially that PBR is a new process, adjustments to requirements in the VM are expected. The Life Actuarial (A) Task Force (LATF) is charged to maintain the VM and has identified the following items for review and possible adjustment as needed prior to the implementation of PBR. The following items must be completed prior to the PBR Operative Date:

1) Update and adopt data and data tables:
   a. Complete the 2014 Valuation Basic Table (2014 VBT).
   b. Provide the CSO mortality tables based on the 2014 VBT.
   c. Implement maintenance in line with the adopted VM-20 process to annually update asset spreads and default costs in VM-20.
   d. Develop commercial mortgage default costs.

2) Draft and consider Valuation Manual changes needed to support the experience data reporting process (See above).

3) Review VM-31 documentation requirements.

4) Definition of products included in VM-20, Section 3 (Net Premium Reserve).

5) Governance revisions in VM-00 regarding the process for updating the VM. **THIS ITEM HAS BEEN COMPLETED.**

6) Additional small company considerations. **THIS ITEM HAS BEEN COMPLETED.**

In addition LATF will consider development of an accounting smoothing mechanism or other methodology to address PBR reserve volatility. They will coordinate this activity with the Accounting Practices and Procedures (E) Task Force and the Statutory Accounting Principles (E) Working Group.

Small Company Exemption Activities:
**The PBR Implementation (EX) Task Force considered** regulatory criteria for a small company exemption. The Life Actuarial (A) Task Force considered changes to the VM to implement the
regulatory criteria for a small company exemption. Expectations are that Plenary will consider the VM small company exemption at the Summer National Meeting.

**2015 CHARGES:**

The **Life Actuarial (A) Task Force** will:

- Address charges to the Life Actuarial (A) Task Force as provided in the Principle-Based Reserving (PBR) Implementation Plan adopted by the Principle-Based Reserving Implementation (EX) Task Force. These charges include Valuation Manual and PBR work expected by the Life Insurance and Annuities (A) Committee, including consideration of the VM-22 (A) Subgroup efforts to pose a PBR methodology for non-variable (fixed) annuities. Report progress to the Principle-Based Reserving Implementation (EX) Task Force and to the Life Insurance and Annuities (A) Committee.—*Essential*

The **VM-22 (A) Subgroup** of the Life Actuarial (A) Task Force will:

- Pose a PBR methodology for non-variable (fixed) annuities for consideration by the Life Actuarial (A) Task Force.—*Essential*

**2015 CHARGES:**

The **Health Actuarial (B) Task Force** will:

- Begin to develop health insurance reserve requirements (VM-25, Health Insurance Reserves Minimum Reserve Requirements) using a PBR methodology. Long-term care should be a priority. Request Model #10 be opened to accommodate the new requirements.—*Important*

- Submit VM-25 changes to the Life Actuarial (A) Task Force for publication in the *Valuation Manual*.—*Important*

- Develop long-term care insurance experience reporting requirements in VM-50, Experience Reporting Requirements, and VM-51, Experience Reporting Formats, of the *Valuation Manual*.—*Important*

**2015 CHARGES:**

The **Statutory Accounting Principles (E) Working Group** will:

- Coordinate with the Life Actuarial (A) Task Force on changes to the *Accounting Practices and Procedures Manual* related to the Valuation Manual VM-A, Requirements, and VM-C, Actuarial Guidelines, and other valuation manual requirements. This process will include the receipt of periodic reports on changes to the valuation manual on items that require coordination as well as the development of an accounting mechanism to address reserve volatility.—*Essential and Ongoing*

V. **CAPITAL REQUIREMENTS – RBC**

Risk-Based Capital (RBC) requirements should be evaluated in light of valuation changes. Regulators should consider the appropriate impact on capital given that 1) reserves are being “right-sized” 2) reserve margins are still included 3) some additional uncertainties (e.g. modeling errors) could be introduced into the calculations, 3) accounting smoothing mechanisms (under consideration by the Life Actuarial (A) Task Force and the Accounting Practices and Procedures (E) Task Force) could reduce reserve volatility, and 4) risks of inadequate reserves are expected to reduce over time because the PBR approach automatically adjusts to actual experience as it emerges.

**2015 CHARGES:**

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The Stress Testing (E) Subgroup of the Life Risk-Based Capital (E) Working Group will:

- Evaluate RBC in light of PBR. Consider changes to RBC needed because of the changes in reserve values, including “right sizing” of reserves, margins in the reserves, any expected increase in reserve volatility, and the overall desired level of solvency measurement and other issues.—Essential
- Consider a total balance sheet approach (e.g., total asset requirement (TAR) type calculation and then subtracting out the PBR reserves) and application of stress scenarios. These charges should include appropriate consideration of international core principles.—Important

VI. ACCREDITATION

Expectations are that the VM will be periodically updated to apply PBR to a wider variety of products. Determining a specific date to require PBR as an Accreditation Standard will be a major decision point and will likely involve different products at phased-in dates. In addition, the accreditation standard on sufficient qualified staff and resources will require review. Consideration should be given to requiring that the VM applicable for any specific state remain substantially similar to, and current with, the most recently adopted NAIC version. As usual, the Financial Regulation and Accreditation (F) Committee will evaluate recommendations and adopt agreed Accreditation requirements.

2015 CHARGES:

The Financial Regulation and Accreditation (F) Committee will:

- As the various work products are adopted by the Principle-Based Reserving (EX) Task Force, Executive Committee, and Plenary, consider them for inclusion in the Part A and Part B Accreditation Standards.—Essential

VII. PBR LEGISLATIVE PACKET

The PBR Implementation (EX) Task Force adopted a PBR Legislative Brief and an Educational Brief containing common questions/answers for potential use by the states on June 21, 2013. The documents are on the NAIC website.3

VIII. TIMELINE

Operative Date of the Valuation Manual

The VM reserve requirements apply to business issued on or after the operative date, which is a date 6-18 months after legislative adoption of the revised SVL by a super-majority of jurisdictions (42) representing at least 75% of the subject premium.

This PBR Implementation Plan assumes a Jan. 1, 2017 VM operative date. The NAIC will track adoption of laws modified for PBR prior to every NAIC National Meeting.

Additional Three-Year Transition

Once operative, the VM allows a three-year transition to give companies time to implement PBR. Companies can implement PBR within that three-year period by choice, so the PBR implementation

Comment [DK14]: This is the current operative date being used for all timeline plans.

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3 http://www.naic.org/committees_ex_pbr_implementation_tf.htm
dates for companies will vary. Regulatory implementation plans need to be in place to facilitate the earliest application.

**Dates for Revised PBR Methodologies for Other Products**

While numerous products are included in the VM today, the reserve methodology is unchanged from present. As changes get made, implementation dates for those products will need to consider company implementation time.

Adopted by the Principle-based Reserving Implementation (EX) Task Force: tbd
PBR Review (EX) Working

Group Report

Separate attachment distributed

at National Meeting
Update on PBR Progress from the Life Actuarial (A) Task Force

Separate attachment distributed at National Meeting
XXX/AXXX Reinsurance Framework Status Report  
March 23, 2015  
to the PBR Implementation (EX) Task Force

The following lists the 2015 charges regarding the XXX/AXXX Reinsurance Framework and provides a status of the work on those charges. This report is provided so the Principle-Based Reserving Implementation (EX) Task Force can coordinate development and implementation of the XXX/AXXX Reinsurance Framework.

**Life Actuarial (A) Task Force**

**2015 Charges:**

- Develop the actuarial method for the Principle-Based Reserving Implementation (EX) Task Force’s review and consideration in adopting items such as the XXX/AXXX Reinsurance Model Regulation and possible changes to the *Actuarial Opinion and Memorandum Regulation (#822)*. The actuarial method should consist of the *Valuation Manual, VM-20*, Requirements for Principle-Based Reserves for Life Products, modified to incorporate changes to mortality tables as developed by the American Academy of Actuaries and any other appropriate modifications determined by the Life Actuarial (A) Task Force, and should explicitly keep (in current or modified form) or eliminate the “net premium reserve” component of the current VM-20.—*Essential*

- Develop an actuarial guideline to provide interim guidance for the *Actuarial Opinion and Memorandum Regulation (#822)* as it relates to XXX/AXXX reinsurance transactions. The actuarial guideline should specify that, in order to comply with Model #822, the opining actuary must issue a qualified opinion as to the ceding insurer’s reserves if the ceding insurer or any insurer in its holding company system has engaged in a XXX/AXXX reserve financing transaction that does not adhere to the actuarial method and primary security forms adopted by the NAIC. The Principle-Based Reserving Implementation (EX) Task Force’s XXX/AXXX Reinsurance Framework Exhibit 3 should be considered for this actuarial guideline, modified as appropriate by the Task Force.—*Essential*

- Request permission from the Executive (EX) Committee to amend Model #822 and draft those amendments to specify that, in order to comply with Model #822, the opining actuary must issue a qualified opinion as to the ceding insurer’s reserves if the ceding insurer or any insurer in its holding company system has engaged in a reserve financing transaction that does not adhere to the XXX/AXXX Reinsurance Model Regulation and other aspects of the XXX/AXXX Reinsurance Framework, as adopted by the Task Force.—*Essential*

**Status:** Complete, pending decision regarding charge pertaining to AOMR.

- The Life Actuarial (A) Task Force worked closely with Rector & Associates, Inc. and others to develop various aspects of the XXX/AXXX Framework, as defined in proposed Actuarial Guideline XLVIII (AG 48). The work included defining the scope of covered policies and calculating tables of percentages to apply to the net premium reserve as part of the Actuarial Method (Section 5A of AG 48). The Life Actuarial (A) Task Force voted to recommend the Actuarial Method to the Principle-Based Reserving Implementation (EX) Task Force. The Life Actuarial (A) Task Force also reviewed the requirement for companies not in compliance with the standards of AG 48 to receive a qualified actuarial opinion but deferred any decision on the requirement to the Principle-Based Reserving Implementation (EX) Task Force. The AG 48 version adopted by the Principle-Based Reserving Implementation (EX) Task Force includes the qualified actuarial opinion requirement. The Life Actuarial (A) Task Force will await adoption of changes to the Credit for Reinsurance Model Act and Regulation and the associated Accreditation decisions to evaluate whether changes are needed to the Actuarial Opinion and Memorandum Regulation (#822). The Life Actuarial (A) Task Force will continue to address AG 48 related items when requested.

**Blanks (E) Working Group**

**2015 Charge:**

- Adopt an XXX/AXXX reinsurance supplement to be filed by insurers ceding XXX/AXXX business beginning with the 2014 data year. The Principle-Based Reserving Implementation (EX) Task Force’s XXX/AXXX Reinsurance Framework Exhibit 5 should be considered for this supplemental filing requirement, modified as appropriate by the Working Group.—*Essential*
Status: Complete as to disclosure for 2014; work needed as to disclosure for 2015.

- The Blanks (E) Working Group will await a proposal from the Principle-Based Reserving Implementation (EX) Task Force regarding 2015 annual statement reporting. Consideration will be given to having different disclosures for “grandfathered” transactions and the transactions that must comply with AG 48.

Capital Adequacy (E) Task Force

2015 Charges:
- Develop an appropriate “RBC cushion” for an insurer ceding XXX/AXXX policies when the assuming reinsurer does not file an RBC report using the NAIC RBC formula and instructions.—Essential
- Develop appropriate asset charges for the forms of “other security” used by insurers under the XXX/AXXX Reinsurance Model Regulation. These charges should then be considered for incorporation into the RBC cushion developed in accordance with the previous charge.—Essential
- Determine whether the current RBC C-3 treatment of qualified actuarial opinions is adequate for the purposes of the risks of XXX/AXXX reinsurance transactions that receive qualified actuarial opinions.—Essential

Status: In process.

The Life Risk-Based Capital (E) Working Group has worked closely with Neil Rector and others to address these charges. As part of this work, the charges were more clearly distilled as two primary tasks given to the Working Group:
- 1) Identify an appropriate consequence for transactions that do not comply with the requirements of AG 48 and;
- 2) Develop a methodology to ensure that there are sufficient good assets backing the reserves in the covered transactions.

The second task addresses the fact that PBR approximates the 85th percentile of the distribution of the present value of future cash flows while RBC plus statutory reserves approximate the 95th percentile.

On its Feb. 27 conference call, the Working Group exposed for comment a proposal that removes the impact of a qualified actuarial opinion based solely on AG 48 and a proposal which increases the authorized control level RBC by the cumulative amount of all primary security shortfalls. The second proposal addresses the task to identify an effective incentive to encourage company compliance with AG 48. On its Mar. 9 conference call, the Working Group exposed for comment a consolidated RBC shortfall proposal which addresses bridging the percentile gap in the second task given to the Working Group. This proposal creates a new RBC exhibit showing the RBC calculation and total adjusted capital for each captive reinsurer along with the ceding company. Any cumulative RBC shortfall results in a reduction to the ceding company’s total adjusted capital. These three proposals will be considered for adoption on a conference call to be scheduled Apr. 7 or 8.

Reinsurance (E) Task Force

2015 Charges:
- Request permission from the Executive (EX) Committee to create a new model regulation to establish requirements regarding the reinsurance of XXX/AXXX policies. The Principle-Based Reserving Implementation (EX) Task Force’s XXX/AXXX Reinsurance Framework Exhibit 4 should be considered for this model regulation, modified as deemed appropriate by the Task Force.—Essential
- Request permission from the Executive (EX) Committee to amend the Credit for Reinsurance Model Law (#785) and draft the amendments to reference the new model regulation drafted in accordance with the previous charge.—Essential

Status: In process.

On an interim conference call on Feb. 24, the Reinsurance (E) Task Force re-formed the XXX/AXXX Captive Reinsurance Regulation Drafting Group, consisting of Doug Stolte (VA), Chair; John Finston and Monica Macaluso (CA); Kathy Belfi
(CT); Steve Kinion (DE); Robert Wake (ME); John Rehagen (MO); Justin C. Schrader (NE); Richard Schlesinger (NJ); James Davis and Amanda Fenwick (NY); and David Provost (VT). The Drafting Group held regulator-to-regulator calls on March 10 and 23 and continues to work on a draft regulation and related documents. It is the intention of the Drafting Group to present a draft regulation to the Task Force for review before the Summer National Meeting.

Statutory Accounting Principles (E) Working Group

2015 Charges:
- Develop the proposed definition for “primary security” for use in the Principle-Based Reserving Implementation (EX) Task Force’s future consideration of a proposed XXX/AXXX Reinsurance Model Regulation.—Essential
- Develop a note to the annual audited financial statement regarding compliance with the XXX/AXXX Reinsurance Model Regulation.—Essential

Status: In process.

- The informal Reinsurance (E) Task Force drafting group met twice in March and the Statutory Accounting Principles (E) Working Group stands ready to provide input on the definition of primary security in the development of the XXX/AXXX Reinsurance Model Regulation. The current draft is consistent with the definition in AG 48.
- The Working Group will review comments on agenda item 2014-31: Disclosure Related to PBR Framework Implementation which provides an audited disclosure and consider re-exposure of the proposed note at the Spring National meeting.

Financial Condition (E) Committee

2015 Charge:
- Evaluate the risk-transfer rules applicable to XXX/AXXX reserve financing transactions to make sure they appropriately apply to situations such as those where parental/affiliate guarantees are used, resulting in the risk effectively being kept within the holding company system even though the reinsurance arrangement involves an unrelated third party.—Essential

Status: In process.

- NAIC staff is researching and will provide a response for the committee to consider.

Financial Regulation Standards and Accreditation (F) Committee

2015 Charge:
- As the various work products are adopted by the Principle-Based Reserving Implementation (EX) Task Force, the Executive (EX) Committee and Plenary, consider them for inclusion in the Part A and Part B standards of the NAIC Financial Regulation Standards and Accreditation Program.—Essential

Status: On hold pending completion of work of other groups.

- The committee stands ready to consider proposals.