



Brian Bayerle
Senior Actuary

September 6, 2018

Mr. Mike Boerner
Chair, NAIC Life Actuarial Task Force

Re: Summer 2018 APF Exposures

Dear Mike:

The American Council of Life Insurers (ACLI)¹ is pleased to submit the following comments regarding the following APFs that were exposed during the NAIC Summer Meeting in Boston.

APF 2018-44: IUL Deterministic Reserve Equity Returns

ACLI supports the American Academy of Actuaries' proposal for equity returns for the deterministic reserve projection for indexed policies. The proposal is a reasonable solution to the excessively low equity returns in the current Scenario 12.

APF 2018-45: Mortality Grading

ACLI has significant concerns with the mortality grading APF. It seems inconsistent that companies with experience better than the industry table are forced to grade to worse experience, but companies with worse experience are required to assume the worse experience persists, even when the company experience has limited credibility. ACLI acknowledges there are existing issues within VM-20, including an inconsistency in the definition of anticipated experience. This proposal links the company's future anticipated mortality experience to historical experience; however, a company's future expectations may reflect other considerations. Further, ACLI is concerned the language as proposed may be confusing and may need additional clarification to the intent and the requirements of the proposal.

ACLI would support a subgroup of regulators, industry, and the Academy to address what the current mortality development structure is accomplishing and what it should accomplish. ACLI believes such a robust dialogue will help all stakeholders better understand the open issues and work towards resolution.

APF 2018-46: Additional VM Definitions

ACLI appreciates the drafting effort to clarify the definitions and individual products comprising the various product groupings. Given the importance of these definitions, we support an iterative process of

¹ The American Council of Life Insurers (ACLI) advocates on behalf of 290 member companies dedicated to providing products and services that promote consumers' financial and retirement security. 90 million American families depend on our members for life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, dental and vision and other supplemental benefits. ACLI represents member companies in state, federal and international forums for public policy that supports the industry marketplace and the families that rely on life insurers' products for peace of mind. ACLI members represent 95 percent of industry assets in the United States.

exposure and discussion to allow regulators, industry, the Academy, and other interested parties to fully vet the definitions.

ACLI is concerned about including extended term insurance (ETI) in the Term Product Group. The Term NPR calculation outlined in VM-20 Section 3.B.4 is likely inappropriate for ETI policies given the absence of future premiums on these policies. Additionally, inclusion in the Term Product Group would cause ETI policies to be ineligible the Deterministic Exclusion Test despite having different risks than a policy issued as term. We suggest including ETI policies in the All Other Product Group which would subject these policies to the VM-A and VM-C requirements, which is a more appropriate reserve requirement for these policies.

ACLI offers the following revised definitions in the following red text. The revisions are mostly to provide clarification and consistency with existing definitions within VM-01. The most notable difference is including ETI with the All Other Product Group consistent with our comments above.

#. The term “term life insurance policy” means a life insurance policy which provides coverage over a specified period of time (the term) shorter than lifetime coverage, with contractually guaranteed premiums payable on a fixed schedule of dates during the term, such that if the insured dies during this term, the death benefit of the policy will be paid to the beneficiary.

Guidance Note: A term can be as short as one year. A term policy may or may not have a current premium scale lower than the contractually guaranteed scale. The policy may or may not provide for further coverage after an initial term, either in the form of a renewal term period or lifetime coverage, at increased premium rates. For a product to be classified as term, regulators would likely expect its nonforfeiture values after the 30th year to be zero.

#. The term “Product Group” means one of the following three terms, as applicable:

- a. “Term Product Group” shall be comprised of the following:
 - i. Term life insurance policies, whether directly written or assumed;
 - ii. Term life insurance riders, whether directly written or assumed, that are attached to a base policy of any kind that is within VM-20’s scope but are valued separately from such base policy;
 - iii. Riders and supplemental benefits, whether directly written or assumed, that are attached to and valued with a term life insurance policy; and
 - iv. Life insurance policies, riders, and supplemental benefits of any kind that the company has assumed on a YRT basis, and would be subject to VM-20’s scope had they be written on a direct basis.

- b. “Universal Life with Secondary Guarantee (ULSG) Product Group” shall be comprised of the following:
 - i. ULSG policies directly written, including any policies that are beyond the end of their contractual secondary guarantee period, but excluding any policies in an extended term insurance status or reduced paid-up status;
 - ii. Riders and supplemental benefits, whether directly written or assumed, that are attached to and valued with a ULSG policy; and
 - iii. ULSG policies that the company has assumed on other than a YRT basis, and would be subject to VM-20’s scope had they be written on a direct basis, including any policies that are beyond the end of their contractual secondary guarantee period, but excluding any policies in an extended term insurance status or reduced paid-up status.

- c. "All Other Product Group" shall be comprised of the following:
- i. All other life insurance policies subject to VM-20's scope that do not belong in (a) or (b) above; and
 - ii. Riders and supplemental benefits that do not belong in (a) or (b) above but which are attached to life insurance policies subject to VM-20's scope.

We look forward to a discussion of these issues. Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "B. Banerji". The signature is fluid and cursive, with a large initial "B" and a clear "Banerji" following.

cc Reggie Mazyck, NAIC