



Brian Bayerle
Senior Actuary

October 1, 2018

Mr. Mike Boerner
Chair, NAIC Life Actuarial Task Force

Re: APF 2018-46

Dear Mike:

The American Council of Life Insurers (ACLI)¹ is pleased to submit the following comments regarding APF 2018-46 on additional Valuation Manual definitions.

Regarding the definition of “term life insurance policy”, we appreciate the efforts of regulators and interested parties to work collaboratively to arrive at a strong definition; we are optimistic that we are getting close to a final definition. Some general commentary and proposed language regarding this definition are included below in our comments on the product groupings.

Regarding the definition of the product groupings, we appreciate the inclusion of our previously submitted comments in the definitions. Reviewing the exposure, we have a few additional comments detailed below.

Consistent Product Groupings

As a general principle, reserve requirements for products, including the assignment of a product to a VM-20 Product Group, should be determined based on the product characteristics at issue, and only changed if there is a material, permanent change to the benefits of the contract such as the addition or cancelation of a benefit rider. For example, take a whole life policy that is surrendered into extended term insurance (ETI); after surrender, we believe the ETI policy should still continue to be grouped in the All Other Product Group for VM-20 (not transferred to the Term Product Group). Policies moving between groups could make year-over-year comparisons difficult and present administrative burdens for companies. For these reasons, we propose inclusion of the following language in VM-01:

A policy should remain in the Product Grouping determined at issue unless there is a material permanent change to the benefits such as the addition or cancelation of a rider.

Exclude Graded Premium Whole Life from the Term Product Grouping

We do not support the inclusion of Graded Premium Whole Life (GPWL) and other non-traditional term products in the Term Product Group because there may be unintended consequences. For example, the

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.

term NPR was calibrated for traditional term products, with level premiums followed by increasing premiums after the level term period. As you may recall from the presentation made to LATF in the fall of 2016, the goal of the NPR for term is to have the Deterministic Reserve generally prevail as the most appropriate level of reserve. To require other products to use the term NPR without alteration will likely produce unreasonable results. At a minimum, the NPR should not be altered to accommodate these other products without rigorous testing. We recommend that products that are not traditional term insurance, and thus might not be consistent with underpinnings of the term NPR, be slotted to the All Other Product Group, where the NPR will be calculated according to VM-A and VM-C requirements which are appropriately conservative. In the case of GPWL, this would require calculation of an Actuarial Guideline 38 basic reserve. An additional way to mitigate concern with GPWL is a possible guidance note in VM-20 to remind practitioners that if risks and the associated management of a product such as GPWL is materially different than other groups of policies in the All Other Product Group, then the company should separate it out into a separate model segment for conducting the DET. For other products such as YRT that are appropriately included in the Term Product Group but for which Term NPR may be unreasonable, we would suggest modifying the NPR language to apply VM-A and VM-C requirements to these products. We would welcome conversation with LATF to further vet this recommendation.

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

Sincerely,

A handwritten signature in cursive script, appearing to read "B. Banerji".

cc Reggie Mazyck, NAIC