Emerging Actuarial Issues (E) Working Group

ACLI Proposed Amendment to INT-39

21 Day Exposure Period

Comments accepted through June 8, 2015
Emerging Actuarial Issues (E) Working Group

Submission Form

Issue / Question:

• An amendment proposal was submitted to LATF by the Academy on 4/15/2013 which would revise the computation of deterministic reserves as defined by VM-20. Specifically, the current process uses a portion of IMR allocated to the PBR segment, and amortizes that into income according to statutory accounting rules. The proposed amendment would eliminate the amortization of the IMR in the modeling, and simplify the calculation by subtracting the IMR from the modeled result determined without regard to the IMR. This has been demonstrated to produce an equivalent deterministic reserve.

• AG-38 8D refers to the determinist reserve methodology of VM-20. A change to VM-20 can therefore impact the AG-38 8D calculations.

• AG-38 8D includes a limitation on investment income from existing assets. The limitation compares the earned rate of the existing assets to a hypothetical A rated bond portfolio at the time of the valuation.

• If the amortization of IMR is no longer a part of the deterministic reserve calculation, the comparison of asset earned rates will change, and potentially change the resulting reserve.

Relevant Cite(s): Amendment Proposal Form on PIMR, June 1, 2013

Any Additional Considerations: This interpretation is developed by amending INT 14-39.

Any Recommendation(s): See attached page

Basis for Recommendation(s): This interpretation will produce the same result for the required 8D analysis after the revision is made to the Valuation Manual as results today before the amendment. Since the intent of the amendment to the valuation manual was to simplify the calculation, but produce the same reserve, this result is consistent with that intent.

Submitting Party:
ACLI

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5/1/15

(Date Submitted)
Proposed Revision to INT 14-39:

For 12/31/14 and later Section 8D submissions, for purposes of determining the starting asset portfolio, the language of Section 8D.a.2.a)(I) is interpreted such that the actual/hypothetical starting asset portfolio net investment return comparison is made as of the valuation date and not prospectively. Examples of how the comparison may be made include (i) a comparison of the weighted average hypothetical portfolio versus actual portfolio net investment returns as of the valuation date or (ii) a historical issue-year-by-issue-year hypothetical versus actual portfolio net investment return comparison, perhaps resulting in a starting asset portfolio as of the valuation date that is a hybrid of the company’s actual portfolio assets for certain issue years and a hypothetical asset portfolio for other issue years.

For purposes of this comparison for 12/31/16 and later, the actual portfolio net investment return is adjusted by the current amortization of IMR allocated to the portfolio. This adjustment is made only for the comparison of portfolio yields to determine the appropriate portfolio to use in the development of the deterministic reserve. The reserve amount is then determined following the procedure defined in VM-20.

DRAFTING NOTE: The proposed 12/31/16 date above assumes that the Valuation Manual is amended for the PIMR amendment by July 1, 2016.