From: Valuation Analysis (E) Working Group

To: Life Insurance Companies Subject to VM-20 and/or VM-21
Interested Regulators

RE: Findings from Review of 2022 PBR Actuarial Reports

The Valuation Analysis (E) Working Group (VAWG) reviewed the 2022 PBR Actuarial Reports. The review of the PBR Actuarial Reports covered life insurance and variable annuities. This report provides a summary of the main findings, high-level feedback, and additional VM-31 reporting considerations.

This report is intended to provide general feedback to assist companies with future PBR valuations and filings, and to aid state insurance regulators in their PBR reviews.

The Valuation Analysis (E) Working Group of the Financial Condition (E) Committee (VAWG) was formed to work with the NAIC Resources to support states in the review of PBR and uniformly address questions and issues arising from application of PBR. The term “NAIC Resources” refers to NAIC actuaries responsible for reviewing PBR Actuarial Reports and supporting states and the VAWG as requested.

This report provides a summary of the main findings from the VAWG’s review of the 2022 VM-20 Reserves Supplement and Variable Annuities Supplement in the Annual Supplement Blanks, and the 2022 PBR Actuarial Reports. The review of the PBR Actuarial Reports covered life insurance and variable annuities.

The analysis presented relies on the information submitted by companies in their VM-20 Reserves Supplement, Variable Annuities Supplement, and PBR Actuarial Reports. Review of the PBR Actuarial Reports required actuarial judgment. Although the analysis is intended to be based on a clear read of the reports, there is some risk of misinterpretation. Many reports had sections that were not completely clear to the reviewers, and in some cases, relevant information could not be easily found. This report summarizes many, but not all observations and findings from the PBR Actuarial Reports.

than others. Further, when companies are asked these questions, in many instances it was clear the company did not understand the results themselves and, therefore, were unable to explain to regulators. Going forward, when stochastic exclusion ratio test is passed for a block of permanent life policies, companies should include an explanation of why the result is reasonable. Such explanations could touch on the hedging impact, contract holder population characteristics, and whether unfavorable experience is passed to the contract holder through non-guaranteed elements.

4. Reports upon Passing Exclusion Testing (VM-20) – If a group of contracts pass both the deterministic exclusion test and stochastic exclusion test, in which the stochastic exclusion test relies on cash flow testing results, the question has been asked, "What sections do we need to include in the VM-31 PBR Actuarial Report"? Higher-level sections (e.g., assumptions, overall results, product descriptions) should be included, as well as the exclusion testing section. In sections where the report refers directly to cash flow testing assumptions, any related disclosures from the Actuarial Opinion Memorandum should be included as an appendix to the VM-31 PBR Actuarial Report. For some disclosures that only relate to PBR-specific requirements (e.g., reinvestment strategy guardrail, max net spread adjustment, mortality grading, creditability, asset collar, etc.), companies may be able to submit "N/A" for a group of policies that passed exclusion tests without the use of a PBR model (i.e., used a cash flow testing model).

5. Margins for Lack of Relevance (VM-20 & VM-21) – Companies frequently include higher margins when experience data contains lower credibility. However, the NAIC Valuation Manual also requires higher margins upon less relevance in an experience data set. So even if a company uses an experience data set that is fully credible, the margin should still be higher if not fully relevant. Examples include using third party data sources or experience from older products with different features, which may be fully credible, but not necessarily fully relevant.

6. Liability Lag Adjustments (VM-2mxamples includ

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