**Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force**

**Amendment Proposal Form\***

1. Identify yourself, your affiliation, and a very brief description (title) of the issue.

**Identification:**

Colin Masterson, American Council of Life Insurers (ACLI). Later modified by Rhonda Ahrens, Thrivent Financial for Lutherans(3/29/25) in response to a LATF discussion held on 3/22/25 as part of the 2025 NAIC Spring National meeting.

**Title of the Issue:**

Clarify the rounding rules associated with the calculation of rates from the NAIC model Standard Valuation Law and model Standard Nonforfeiture Law for Life Insurance.

2. Identify the document, including the date if the document is “released for comment,” and the location in the document where the amendment is proposed:

VM-02 Section 3.A. (Nonforfeiture Rates); VM-20 Section 3.C.2.a. and 3.C.2.b. (Valuation Rates), January 1, 2025 NAIC Valuation Manual

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted, or changed by providing a red-line (turn on “track changes” in Word®) version of the verbiage. (You may do this through an attachment.)

**VM-02 Section 3.A.**

Section 3: Interest

A. The nonforfeiture interest rate for any life insurance policy issued in a particular calendar year beginning on and after the operative date of the Valuation Manual shall be equal to 125% of the calendar year statutory valuation interest rate defined for the NPR in the Valuation Manual for a life insurance policy with nonforfeiture values, whether or not such sections apply to such policy for valuation purposes, rounded to the nearer one-quarter of 1%, provided, however, that the nonforfeiture interest rate shall not be less than the Applicable Accumulation Test Minimum Rate in the Cash Value Accumulation Test under Section 7702 (Life Insurance Contract Defined) of the U.S. Internal Revenue Code. Calculated nonforfeiture rates exactly between two multiples of one-quarter of 1% are rounded to the **higher** one-quarter of 1%.

**VM-20 Section 3.C.2.a.**

1. For NPR amounts calculated according to Section 3.B.5.d:

The calendar year NPR interest rate I shall be determined according to Section 3.C.2.a. and the results rounded to the nearest one-quarter of 1%.Calculated valuation rates exactly between two multiples of one-quarter of 1% are rounded [Original APF: to the **lower** one-quarter of 1%][Option 2: to the **higher** of one-quarter of 1%][Option 3: to the **lower** of one-quarter of 1% if the 12-month average is lower than the 36-month average used in the determination of the reference interest rate, where the reference interest rate is described in Section 3.C.2.a.ii, and to the **higher** of one-quarter of 1% if the 12-month average is higher than the 36-month average used in the determination of the reference interest rate.] This rate shall be used in determining the present values described in Section 3.B.5 for all policies issued in the calendar year next following its determination.

DRAFTING NOTE: [Option 1(original APF): no drafting note needed][Option 2: Because the process for determining the reference rate used in Section 3.C.2.a. already draws the resulting valuation rate down by starting with the lower of the 12-month and 36-month averages, rounding up was chosen as the most simple rounding solution to ensure that the interest rate used does not have an excessive level of bias up or down.][Option3: Although a more complicated process than strictly rounding down in every case or rounding up in every case, this method was chosen as one that rounds in the direction of the most recently observed interest rates used in determining the valuation rate for Section 3.C.2.a. and Section 3.C.2.b.] – Author’s Note: The drafting note is applicable to the language chosen for both Section 3.C.2.a and Section 3.C.2.b, so it may need to be placed in both locations, but was drafted so it can be made as a 3.C.2 drafting note by including references to both 3.C.2.a and 3.C.2.b.

**VM-20 Section 3.C.2.b.**

1. For NPR amounts calculated according to Section 3.B.4 or Section 3.B.5.c:

The calendar year NPR interest rate shall be calculated by increasing the rate determined according to Section 3.C.2.a. above by 1.5%, but in no event greater than 125% of the rate determined according to Section 3.C.2.a above rounded to the nearest one-quarter of 1%. Calculated valuation rates exactly between two multiples of one-quarter of 1% are rounded [Option 1(original APF): to the **lower** one-quarter of 1%][Option 2: to the **higher** of one-quarter of 1%][ Option 3: to the **lower** of one-quarter of 1% if the 12-month average is lower than the 36-month average used in the determination of the reference interest rate, where the reference interest rate is described in Section 3.C.2.a.ii, and to the **higher** of one-quarter of 1% if the 12-month average is higher than the 36-month average used in the determination of the reference interest rate.]

4. State the reason for the proposed amendment? (You may do this through an attachment.)

The NAIC model Standard Valuation Law and model Standard Nonforfeiture Law for Life Insurance define the rules for rounding when calculating valuation interest rates and nonforfeiture rates, respectively; however, both model laws are unclear regarding the rounding rule when results fall exactly between one-quarter of 1% (i.e., calculated rates ending in either .125, .375, .625, or .875). It has become accepted practice that the valuation interest rate is rounded down in this situation, and the nonforfeiture interest rate is rounded up. This approach is consistent with the [New York Department of Financial Services’ 1986 Circular Letter No. 13](https://www.dfs.ny.gov/industry_guidance/circular_letters/cl1986_13) and [California Bulletin 2001-04](https://www.insurance.ca.gov/0250-insurers/0300-insurers/0200-bulletins/life-insur-bulletins/upload/Bulletin-2001-4.pdf). Codifying this approach in the Valuation Manual would eliminate any future ambiguities by specifying that for nonforfeiture calculations, such results are rounded up to the nearest one-quarter of 1%, and for valuation calculations, such results are rounded down to the nearest one-quarter of 1%.

Additional reasoning added by Rhonda Ahrens when making edits for a 3/29/25 proposed modification discussed during the LATF meeting on 3/22/2025: The New York Department of Financial Services’ 1986 Circular Letter and California Bulletin 2001-04 were both issued during times when the interest rate environment was on a downward trend and those precedents may not be relevant in the context of the Principle-Based Reserve regime governed by the Valuation Manual. Therefore, an approach that has less room for bias in the calculation of the ultimate valuation rate is more appropriate than simply rounding down as originally proposed. The revisions to the APF now show 3 options: 1) the original round down approach suggested for simplicity and due to the precedence citing referenced in the prior paragraph in the original APF, 2) round up which is also very simple and justified by the fact that the process already biases the valuation rate down by choosing the lower of a 12-month and 36-month average of observed rates, and 3) a more complicated option that rounds up sometimes and rounds down other times and would follow recent trends in observed rates by assuming that if the 12-month average is higher than the 36-month average of observed rates, it’s more appropriate to round up and vice versa. None of the options guarantees that the rounding would follow the same direction as the rates that will be observed during the time period following the determination of the valuation rate and during the time this rate is effective. Note that for the determination of the valuation rates used in 2025 for life insurance products, the 12-month average of observed rates was 5.58% and the 36-month average of observed rates was 4.75%.

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| **Dates:** Received | Reviewed by Staff | Distributed | Considered |
| 12/13/2024 | KK |  |  |
| **Notes:** APF 2025 – 02  Revised based on 4/3 LATF discussion | | | |