**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.

Christopher H. Hause, FSA, MAAA Principal at Hause Actuarial Solutions and Chair of the Society of Actuaries’ Credit Insurance Experience Committee.

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:

Valuation Manual, section VM-26, Section 3.B. Contract Reserves for Credit Disability Insurance.

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.)

Please see attached redline and “clean” version of the proposed changes.

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

Credit Disability experience has gradually improved since the original (1997) credit disability study. The 2022 study indicates that the current valuation standard contains claim costs that are from 190% to 276% of actual claim cost experience, based on the SOA’s “2023 Credit Disability Study Report.” The variations in the range shown above occur by elimination period and occupation class distributions observed over the period studied (2014 through 2022). The proposed changes to VM-26 remove the 12% addition to the 1985 CIDA incidence rates for newly issued contracts, since the addition of the 12% constitutes a margin that is no longer needed or justified by experience.

\* This form is not intended for minor corrections, such as formatting, grammar, cross–references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

NAIC Staff Comments:

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| **Dates:** Received | Reviewed by Staff | Distributed | Considered |
| 5/13/24 | S.O. |  |  |
| **Notes:** 2024-10 | | | |

B. Contract Reserves

1. Contract reserves are required for all contractual obligations, which have not matured, of a company arising out of the provisions of a credit disability insurance contract consistent with claim reserves and unearned premium reserve, if any, held for their respective obligations.

2. The methods and procedures for determining contract reserves for credit disability insurance must be consistent with the methods and procedures for claim reserves for any contract, unless appropriate adjustment is made to assure provision for the aggregate liability. The date of incurral must be the same in both determinations.

3. The morbidity assumptions for use in determining the minimum standard for valuation of single premium credit disability insurance contract reserves are:

1. For contracts issued to be effective prior to January 1, 2025:
   * + 1. i. For plans having less than a 15-day elimination period, the 1985 Commissioners Individual Disability Table A (85CIDA) with claim incidence rates increased by 12%.
       2. ii. For plans having greater than a 14-day elimination period, the 85CIDA for a 14-day elimination period with claim incidence rates increased by 12%.
2. For contracts issued to be effective January 1, 2025 and later:
   1. i. For plans having less than a 15-day elimination period, the 1985 Commissioners Individual Disability Table A (85CIDA).
   2. ii. For plans having greater than a 14-day elimination period, the 85CIDA for a 14-day elimination period.

4. The minimum contract reserve for credit disability insurance, other than single premium credit disability insurance, is the gross pro-rata unearned premium reserve.

5. The maximum interest rate for use in determining the minimum standard for valuation of single premium credit disability insurance contract reserves is the maximum rate allowed in Model #820 for the valuation of whole life insurance issued on the same date as the credit disability insurance contract.

6. A company shall not use a separate mortality assumption for valuation of single premium credit disability insurance contract reserves since premium is refunded upon death of the insured.

7. Use of approximations is permitted, such as those involving age groupings, average amounts of indemnity and grouping of similar contract forms; the computation of the reserve for one contract benefit as a percentage of, or by other relation to, the aggregate contract reserves exclusive of the benefit or benefits so valued; and the use of group methods and approximate averages for fractions of a year or otherwise.

8. Annually, a company shall conduct a review of prospective contract liabilities on contracts valued by tabular reserves to determine the continuing adequacy and reasonableness of the tabular reserves. The company shall make appropriate increments to such tabular reserves if such tests indicate that the basis of such reserves is not adequate.