

Since 2017, Pennsylvania life insurance companies and fraternal benefit societies (hereafter “insurers”) have been permitted to use a Principle-Based Reserving (PBR) approach for determining minimum reserves for certain types of life insurance contracts issued on or after January 1, 2017. Use of the PBR approach was optional for contracts issued from 2017 through 2019. PBR is now **mandatory** for certain types of life insurance contracts issued on or after January 1, 2020.

Although PBR is mandatory, Pennsylvania domestic insurers have the option of requesting, from the Pennsylvania Insurance Department (PID), an exemption from using PBR if: (1) the insurer qualifies under the single-state exemption criteria; or (2) the insurer qualifies under the small company exemption (Life PBR Exemption) provisions of the law. All exemption requests made pursuant to the small company exemption must be in writing and must be filed by July 1 of each year. Exemption requests for single-state companies may be made at any time, however, the Department respectfully requests that companies submit any request by July 1 if possible.

The single-state exemption may be available to an insurer if they are doing business only in Pennsylvania. If approved, the single-state insurer will compute reserves for exempted products using assumptions and methods used prior to the operative date of the Valuation Manual in addition to any other requirements established by the PID in regulation. Once approved, the single-state exemption continues to apply to the insurer’s exempted products unless revoked because the single-state exemption criteria in the law are no longer being met.

The small company exemption may be available to an insurer if the insurer meets the definition and requirements under the law. The small company exemption request for life insurance contracts acquired during the current calendar year must be filed with the PID prior to July 1 of that calendar year. Small companies are defined as insurers writing less than \$300 million in ordinary life premiums and, if a member of an NAIC insurance group, that NAIC insurance group has combined ordinary life premiums of less than \$600 million. To be eligible for the exemption, the insurer must certify, in the small company exemption request filed for life insurance contracts acquired during the current calendar year, that it meets all the following conditions based on values from the prior calendar year’s financial statements:

- (1) The insurer has less than \$300 million of ordinary life premiums and, if the insurer is a member of an NAIC insurance group, that NAIC insurance group has combined ordinary life premiums of less than \$600 million.
- (2) Total adjusted capital is at least 450% of the authorized control level risk-based capital (RBC) as reported in the most recent RBC filing. This provision does not apply to fraternal benefit societies with less than \$50 million of ordinary life premiums.
- (3) The appointed actuary has provided an unqualified opinion on the reserves reported in the most recent annual statement.
- (4) Any universal life secondary guarantee business issued or assumed with an issue date of January 1, 2020 or after meets the definition of a nonmaterial secondary guarantee universal life product in the Pennsylvania law.

If the PID rejects a small company exemption request it will provide notice to the insurer by September 1 of each year an exemption request is made. If a small company exemption request is rejected, the insurer will have to comply with the requirements of Valuation Manual minimum standard VM-20 to determine minimum reserves for certain types of life insurance contracts issued during the current calendar year.

A small company exemption request is required each year for life insurance contracts acquired during that year. For example, an approved 2020 small company exemption request only applies to life insurance contracts acquired during the 2020 calendar year. Life insurance contracts acquired in subsequent years will require a small company exemption request to be submitted that year for the life insurance contracts acquired in that year. Likewise, the small company exemption, or lack of a small company exemption, would continue to apply at all future valuation dates for those life insurance contracts acquired in a particular calendar year. Please note that for the purposes of the small company exemption the term “acquired” refers to any policy that was issued or assumed in the calendar year of the request.

Exemption requests should be directed to the attention of the assigned financial analyst for the domestic company at: Pennsylvania Insurance Department, Financial Analysis Division, 1345 Strawberry Square, Harrisburg, PA 17120.