

**Thursday, March 6, 2003: Life & Health Actuarial Task Force**

Regulators present were AR, FL, IL, NE and NM. There was not a quorum present until late Friday afternoon, which handicapped discussion and actions that could be taken.

Aspects of the Standard Nonforfeiture Law for Individual Deferred Annuities. LHATF discussion was based on a 2/23/03 draft. Some minor changes were made to a few phrases, the most notable one making clear that the 1% floor applies to equity-indexed annuities in addition to other annuities.

Because of the urgent nature of the project, LHATF scheduled a conference call for late Friday afternoon for non-attending members to participate. The sole purpose was to get a quorum and to vote the revised proposal up or down. It passed 9-0, with 3 states not voting. In a somewhat unusual bit of scheduling, the measure is expected to be passed by the Life (A) Committee and then by Executive and Plenary Committees on Tuesday.

The purpose of the project was to provide relief in low interest rate environments. Minimum interest rate guarantees will be the lesser of 3% or the 5-year Constant Maturity Treasury Rate less 125 basis points, but the latter not less than 1%. The interest accumulation is based upon net considerations (87.5% of gross considerations) less a \$50 annual charge and less any applicable premium tax.

The Act may be applied on a contract form-by-contract form basis for 2 years, after which it becomes mandatory for all forms.

General Nonforfeiture Project. LHATF is questioning why this project should continue and what it is supposed to accomplish. Interested parties mentioned the encouragement of multi-benefit policies (e.g., LTC with life, disability and annuity and life) and the need for flexibility. Unless someone in industry sparks this project going forward, it is likely to be dropped.

One interesting observation by Bruce Sartain (IL) is that the SVL might be as big a handicap to multi-benefit policies as the SNFL. Industry representatives agreed.

Possible Areas of Revision to the Standard Valuation Law. LHATF is trying to decide whether to address this issue on a product-by-product basis (the current mode) or to do a complete overhaul. This discussion will continue in June.

In a side note, Chairman Batte (NM) stated that New Mexico plans to adopt the AOMR revisions as soon as possible, and if there are no material differences between New Mexico and the state of domicile, New Mexico will accept a state of domicile opinion. The definition of "material" was not provided.



Update on C-3 Phase II Work and VAGLB Reserves. An AAA Subcommittee reported on Phase II activity. Phase II covers variable annuities and variable life. It was basically a short reiteration of what it had reported at the December LHATF meeting. Highlights include the use of stochastic scenarios, concentrating on the worst 10% scenarios and studying year-by-year results in addition to tail results.

Another AAA Subcommittee studying VAGLB reserves reported that it identified five key issues: (1) law vs. guideline, (2) reserve methodology, (3) tax reserves, (4) modeling and (5) professionalism and practical guidance.

No recommendations were made by either subcommittee. LHATF intends to schedule a conference call before its next meeting to get regulatory feedback

### **Friday morning, March 7, 2003: Accident & Health Working Group**

Did not attend, but see the summary of the WG report below.

### **Friday afternoon, March 7, 2003: Life & Health Actuarial Task Force**

Regulators present were AR, FL, IL, NE, OK and VT.

Minutes. They were not approved or even discussed because no quorum was present.

Report of the A&H Working Group. Major activities of this morning included the following items.

1. There will be a conference call to discuss Disability Income reserves.
2. On LTC, Frank Dino (FL) chairs a subgroup to study reserve assumptions and he plans to hold a conference call.
3. Dino will prepare a list of issues related to the CMS Medicare Supplement Premium Refund project.
4. The Small Employer Insurance Rating Guidance Manual has been exposed and is expected to be adopted by LHATF in June.
5. AAA Rate Filing Task Force will schedule a webcast to discuss closed block issues.
6. Julia Phillips (MN) will make a presentation on Annual Statement Blanks consistency between Life and Health at the next meeting.
7. Credit Disability reserve changes to the model law will be discussed at the next meeting.



Reserves for GICs With Bailout Provisions. This project has been continuing for many years and the guideline has been exposed for a year. Only two comments have been received. A regulatory comment wants to limit the valuation interest rate to a Plan Type A rate. The guideline will be discussed in June.

Credit Insurance Mortality. LHATF discussed some unresolved issues from the last conference call. They agreed that XXX should not apply. The discussion bogged down on determining what the existing standards actually are on credit life. That point will be researched before June. Applicability to single premium and non-single premium plans was not resolved. LHATF will schedule a conference call to cover all outstanding issues so that this project can be wrapped up at the next meeting

Life Insurance Illustration Regulation. A comment raised the issue of projecting mortality improvement by the potential misuse of mortality adjustments. AAA Life Products Committee is scheduled to discuss this issue at its next meeting and will report to LHATF in June.

Consistency Between AOMR and Annual Statement Instructions. AOMR references are "hard-coded." When Blanks change (e.g., former Exhibit 8 is now Exhibit 5), inconsistency results. Regulators do not want to revise AOMR whenever Blanks change. How to accomplish this will be discussed in June.

Other Matters. They were deferred to the next meeting.

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