

Thursday, June 19, 2003: Life & Health Actuarial Task Force

Regulators were present from AR, CA, FL, NE, NM, NY, PA, TX and UT, constituting a quorum.

Development of a Regulation and other Topics Pertaining to Nonforfeiture for Individual Deferred Annuities. The discussion was led by the Annuity Nonforfeiture Implementation Work Group. The group was formed to respond to requests with regard to the implementation details associated with the new model Standard Nonforfeiture Law for Individual Deferred Annuities.

Concerns raised and discussed included:

- (1) the adequacy of the maximum additional 100 basis point reduction defined in section 4C of the model for equity indexed benefits
- (2) a clarification of how to determine the 5 year CMT(Constant Maturity Treasury Rate)
- (3) the definition of the rate underlying the guarantee crediting rates used in CARVM
- (4) the consistency of the MGA product loads

The Working Group will continue to research and clarify these issues. They will report back at the next meeting and possibly publish some Q&A in the AAA publication.

General Nonforfeiture Project. Noel Abkemeier presented a report by the Nonforfeiture Improvement Work Group. The group identified the constraints imposed upon product design by the current nonforfeiture laws. They also expanded on the product designs that could be possible.

Regulators expressed interest in “life cycle” products and mentioned that they may need to be willing to vote for certifications over formulaic approaches. Some thought was given to start small with revisions to the Life Insurance Nonforfeiture initially. The LHATF gave the working group the go ahead to continue to work on the project.

Possible Areas of Revision to the Standard Valuation Law. Chairman Batte (NM) began the discussion on this topic and asked for comments on changing the wording concerning actuarial opinions from “state of filing” to “state of domicile”. After some discussion, LHATF decided that this topic has been revisited many times during the last year and half. At this point, there has been substantial discussion and LHATF decided it is better to leave the wording as it currently is in the SVL.

At least 9 more items concerning the SVL were brought up in a letter from the Florida department. A regulatory subcommittee was formed to research these items as well as others and then report back to the task force.



Update of C-3 Phase II Work and Variable Annuity Reserves. These two initiatives were discussed in unison as the Variable Annuity Reserve Working Group (VARWG) has developed a reserve methodology for variable annuity products that uses the principles of the proposed Risk Base Capital C-3 Phase II approach.

The Life Risk Based Capital Work Group (LRBC WG) is in the process of reviewing and researching comments received during the exposure period. The objective is to address these and other issues for the LRBC WG report in September of 2003.

At this point, the LRBC WG has made the following decisions:

- (1) variable life insurance products will be excluded from the scope of this effort
- (2) the scope will be modified to include similar variable guarantees regardless of the policy form that provides them
- (3) the scope will also be modified to include variable annuities with no guarantees and to remove the modest capital charge for these products from the "regular" C-3 factors
- (4) the revised recommendation will reflect the Federal Income Tax credit for reserve increases in excess of Cash Surrender Value increases.

Calculation examples with GMDDB will be available on the AAA website as of June 22, 2003.

The VARWG discussed the methodology for the Variable Annuity reserves. The reserve is based on a projection of variable annuity contracts and the assets supporting the contracts over a broad range of stochastically generated projection scenarios using prudent best estimate assumptions. It is the intention of the working group that one projection run can be done. The results can be shared by RBC and reserve calculations with some adjustments applied after the projections.

LHATF believes the working groups are going in the correct direction. The same regulator subcommittee (that is mentioned above that is looking at SVL) will also work on the regulators' concerns as they pertain to the Variable reserve methods. The goal of the VARWG is to produce an exposure draft by year-end 2003.

Friday morning, June 20, 2003: Accident and Health Working Group

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

Friday afternoon, June 20, 2003: Life & Health Actuarial Task Force

Regulators were present from AR, CA, FL, NE, NM, NY, PA, TX, UT and VT, again a quorum.



Minutes were approved.

Report of the A&H Working Group. During the morning session the following actions were taken:

- (1) Adopted guidelines to the Small Employer insurance rating guidance manual
- (2) Exposed for comment revisions to the reserving standards for Disability Income
- (3) Exposed for comment revisions to the reserving standards for Long Term Care
- (4) Discussed the CMS medicare supplement premium refund project. Further discussion will be held through a conference call.
- (5) Exposed for comment clarifications on the A/H reserve model for single premium credit DI

Variable Annuity GMDB Reserves. A recent article in *The Wall Street Journal* prompted this discussion. The article suggested that policyholders of variable annuities with GMDB withdraw all but a small amount of cash value in order to keep the death benefit provision.

The regulators entertained the concerns of the industry:

- (1) External auditors of life insurance companies are faced with the difficulty of rendering an audit opinion when the companies did not follow the literal interpretation of the reserve requirements while the regulators are on record as saying that the literal interpretation may be correct.
- (2) The situation described appears to be a combination of elective and non-elective benefit – 100% utilization does not appear to be appropriate.

LHATF did recognize that in the long term the variable annuity reserve methodology in process will cover this situation. However, the regulators are concerned about solvency.

The AAA volunteered to research a few short-term solutions to this situation and then there will be a conference call held to discuss the options.

Study the Need for Revisions to the Life Insurance Illustration Model Regulation. The Illustration Working Group (IWG) distributed and discussed their research and findings. Overall, the purpose of the IWG is to review issues with respect to life insurance illustrations and for this report, specifically discuss the use of flat multipliers in setting the mortality assumption underlying the Illustration Actuary's Report.



IWG recommends expanding awareness amongst illustration actuaries through education and Practice Notes. As specific items are discussed and clarified, Practice Notes can provide additional non-binding guidance.

ASOP 24 does provide guidance in the specific charge of developing the underlying mortality assumption, especially at older ages and later policy durations. In addition, the IWG provided us with a proposed addition to the Practice Notes with respect to late duration mortality.

LHATF agreed to have the IWG continue its work.

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