

RBC C3 Phase II and Variable Annuity Reserve

The Life and Health Actuarial Task Force (LHATF) has scheduled three conference calls for "RBC C3 Phase II Work and Variable Annuity Reserve." The first conference call was held on October 16, 2003. On October 8 NAIC sent all registered parties of the conference call a e-mail which contains the following documents:

- AAA-vardf.doc
- AAAvarwg.doc
- Lauz0801.doc
- Lauz0807.doc
- Lauz1010.doc
- Lau1010a.doc

In addition, the American Academy of Actuaries (Academy) also released an Academy Alert 2003-L-5 describing the latest developments on RBC Phase II project and the long-term solution currently pursued by Variable Annuity Working Group of the Academy. A brief review of these documents would enhance the understanding of the proposed changes to RBC and reserves for variable annuities.

Participants included regulators from states such as CA, CT, FL, IL, and NY as well as interested parties from the life insurance industry such as ACLI, insurance companies and actuarial consulting firms.

Items discussed were:

1. The leader of the conference call (Dennis Lauzon of New York) expressed the desire to develop a consistent method to determine the appropriate RBC for minimum guaranteed death benefit (MGDB) and variable annuity guaranteed living benefits (VAGLB).
2. Depending on the insurance company, RBC for MGDB and VAGLB, which are based on formulae, may be higher or lower than the appropriate amounts. Thus, it may be reasonable to allow insurance companies to use a modeling approach to determine the appropriate RBC amounts for guarantees of variable annuities.
3. The goals of this first conference call are to (a) examine the appropriateness of the proposed mortality assumptions and (b) identify the regulatory oversight issues of the modeling approach.



4. The leader of the conference call indicated that the method used to calculate statutory reserves for variable annuities should be consistent with the method used to calculate RBC for guarantees of variable annuities.
5. The desired timeframe is to have the proposed RBC and the proposed reserve method for variable annuities with guarantees become effective by the end of year 2004.
6. Factors to calculate RBC for guarantees of variable annuities, however, should be in place by the end of year 2003.
7. The document, Lau1010a.doc, outlines the mortality assumptions for the formula approach and the modeling approach.
8. Formulaic RBC factors are developed for 65% and 100% of the male, ALB, MGDB 94 table with 5 years setback for female. The final RBC factors are based on the company's actual mortality experience for the last three years and are obtained by interpolation of the factors at 65% and 100%. Please see Lau1010.doc for more details.
9. Some regulators expressed concerns over the reasonableness of the multiplier, 65%, on MGDB 94 mortality rates.
 - One regulator indicated that changing from 1980CSO to MGDB 94 table has already caused a significant reduction in reserves for MGDB. So, it is not certain that 65% of MGDB 94 mortality rates contains adequate mortality margin.
 - Another regulator wanted additional analysis to test whether 65% of MGDB mortality rates are greater than the actual mortality rates experienced by insurance companies.
 - One regulator proposed not to use a fixed 65% mortality factor. Instead, the mortality factor should gradually be moved from 65% to 100%.
10. The leader of the conference call proposes to have a vote on whether there should be an alternative approach for the mortality assumptions in the next conference call.
11. The next topic is to identify regulatory oversight issues such as validation of the company's projection models.
12. Regulators are interested in developing an effective tool to efficiently validate the company's projection models for RBC and variable annuity reserves. Possible sources of reference include several new practice notes on modeling for MGDB and VAGLB and other works currently studied by the Academy.



13. One regulator proposed the reliance on Actuarial Standard of Practice No. 41, *Actuarial Communications*.
14. Regulators are seeking inputs from the insurance industry and others to develop a model validation tool.
15. NY insists on having minimum floors for both RBC and reserves for variable annuities. NY may prepare guidance on these minimum floors shortly.
16. The next conference call is November 5, 2003.

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