

Update on C-3 Phase II Work and Variable Annuity Reserves

The purpose of the call was to review whether the new reserve method for variable annuities should be promulgated as a guideline, model regulation or law. There was no discussion regarding what the new method would require or its appropriateness.

The Academy presented a document illustrating what needs to be accomplished if the new reserve method is to become effective by December 2004 and led a discussion of the pros and cons of the three approaches. The main concerns were timeliness of adoption and whether or not the new reserve method should apply for existing business.

No consensus was reached regarding the best method of promulgation, but most agreed that any of the three were possible.

Application to inforce business received more debate.

NY felt that AG39 must be replaced because it has a sunset provision, so whatever is done should be retroactive for VAGLBs, if nothing else.

CT expressed that a new set of rules for existing business could have unintended consequences.

MN opined that there is little to gain by making the new method retroactive.

CA thought that perhaps the VAGLB piece could be retroactive with a phase-in.

CA commented that maybe some numbers should be developed. If the new method only applies to variable contracts, how is a variable annuity with all fixed money distinguished from a reserve method for a similar fixed annuity?

The Academy did not specifically answer CA's question, but commented that some numbers would be presented to LHATF at the September meeting in Chicago.

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