

Revisions to Actuarial Guideline 34

The Life and Health Actuarial Task Force (LHATF) completed its first of two conference calls to consider adopting the proposed revisions to Actuarial Guideline 34. The second conference call will be held on November 6, 2003.

On October 16, the NAIC sent all interested parties the proposed revisions to AG 34 and their commensurate comments. Based on the comments, the proposed revisions were further revised. On October 27, 2003, the NAIC sent an updated version of the revised AG 34 to all interested parties.

Participants of the conference call included regulators from states such as CA, CT, FL, IL, MN, NY, OK, PA, TX as well as interested parties from the life insurance industry such as ACLI, insurance companies and actuarial consulting firms.

Items discussed were:

1. The goal of the conference call is to discuss the proposed revisions to AG 34. The next step is to expose the revised AG 34 to the "A" committee for adoption.
2. Dave Sandberg initiated the discussion for the proposed revisions. The original AG 34 revisions were incorporated in the "Scope" section of AG 34. Based on comments from regulators and interested parties, the revisions were removed from the "Scope" section and incorporated in other parts of the AG 34. Revisions are:
 - (a) Section III - The definition of "Projected Reduced Account Value" is revised to include the following sentence: "The determination of the Projected Reduced Account Value should not reflect future partial withdrawals."
 - (b) Section IV (C) –The section for Integrated Reserve Calculation is revised to indicate that the integrated reserve is also subject to asset adequacy analysis requirement in subsection G.
 - (c) A new section, Section G, is added to AG 34 to specify asset adequacy analysis requirement.
3. TX confirmed that the asset adequacy analysis should include modeling of dollar for dollar partial withdrawals (\$-4-\$ PW).
4. For companies which do not offer \$-4-\$ PW, it is possible that the revisions may lead to a higher AG 34 statutory reserve.



5. FL wanted to remove the phrase “from time to time” from section G due to regulatory delegation concerns. The ACLI indicated that the same phrase is also used in AG 39. FL wanted to remove the phrase “from time to time” from both AG 34 and AG39. The issue was not resolved.
6. CT indicated that an actuarial guideline should only provide interpretation of an existing regulation rather than creating new regulation. As the proposed revision implies zero PW utilization rate, CT questioned whether the proposed revision is consistent with CARVM because CARVM is based on the greatest present value concept.
7. NY agreed with CT and proposed using best estimate PW utilization rate rather than 0%.
8. CA agreed with CT and NY.
9. An interested party suggested that the utilization rate should be somewhere between 0% and 100%.
10. NY had previously suggested a 20% utilization rate but was voted down. NY was not interested in reactivating the specified utilization rate issue.
11. Dave Sandberg indicated that the proposed revision should only be considered as a temporary remedy until the long-term reserve solution is available for variable annuities.
12. IL suggested that the revision should only be applicable for 2003 year-end. The limitation is to avoid adopting a temporary revision in a hurry while it may not be consistent with CARVM.
13. CA suggested adding time limitation such that the revised AG 34 would only be effective for 2003 and 2004 year-end. If the long-term solution is not available at the end of 2004, the industry may have to go back to the original AG 34.
14. Aegon suggested that not allowing PW in AG 34 calculations could lead to inconsistency between AG 33 and AG 34 calculations. Aegon suggested that the words *should not* [emphasis added] in the definition for “Projected Reduced Account Value” should be changed to *need not* [emphasis added].
15. ING indicated that the words *do not* [emphasis added] in the first sentence of Section G should also be changed to *need not* [emphasis added].



16. ACLI strongly support the latest revisions of AG 34 with the wording changes in bullet points 14 and 15 above.
17. Members of LHATF voted on the proposed revisions to AG 34. Results are listed below:

For: IL, MN, OK, PA, TX
Against: NY, CT
Abstain: CA, FL

The motion carried. The revisions for AG 34 will be updated by Monday, November 3, 2003 and will be ready to be discussed in the conference call with the "A" committee on Wednesday, November 6, 2003.

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