

LHATF conference call November 4, 2004

On November 4, 2003, the CADTF/LHATF Joint Subgroup had scheduled a conference call to discuss regulatory issues related to various avenues of oversight and validation that may be used to validate C3 Phase 2 calculations. Instead, the conference call topic was changed to discuss pending issues related to the exposure of VA CARVM. In particular, revenue sharing was discussed. Fourteen states were represented. A limited number of interested parties also participated.

Dennis Lauzon of NY expressed concerns over including revenue sharing in setting RBC and reserves. Dennis deferred to John O'Sullivan of Trinity Actuarial for a definition of revenue sharing.

John suggested that revenue sharing can be thought of as a negative expense. The mutual fund company is an independent entity. The mutual fund company provides the investment choices for variable annuities, but the insurer does the administration. The insurer keeps track of the policy level detail, the number of shares, the account balances and the policy level returns. In exchange for these services, the mutual fund company returns some of the expenses that would have otherwise been charged for a retail account.

Essentially, there are two categories of revenue sharing: one, administrative arrangements and two, 12b-1 fee distributions.

Some questioned the lasting nature of these agreements. Are they permanent? Others struggled with what would be considered to be a prudent best estimate for future revenue sharing amounts? Some suggested that reimbursements could be as high as 45- 65 basis points.

One large insurer indicated that they receive 25 basis points for 12b-1 fees and between 10 and 15 basis points for administrative expenses.

Connecticut suggested that any amounts in excess of 25 bps would be worrisome.

It was agreed that 12b-1 fees are generally guaranteed and that the administrative fees would never be lost.

It was agreed that there are no statutory reporting requirements for shared revenue. These amounts show up as other income.

Are revenue sharing agreements ever reviewed by examiners? Most agreed that these amounts are seen but not reviewed. The fees flow into the general account and stay there.



After much discussion, Dennis Lauzon asked the regulators if these amounts should be included in the C3 phase 2 calculations.

- 1- NY says can include if guaranteed and may be transferred.
- 2- CT would limit the amount even if guaranteed.
- 3- TX would require disclosure, only allowing guaranteed amounts subject to maximums.

While no final decision was made, most seemed OK with revenue sharing as long as there are limitations.

The next conference call is scheduled for 11/10/04. The following items will be discussed:

- 1- The Academy will comment on revenue sharing.
- 2- The Academy will update new wording for "similar in nature".
- 3- NY issues raised in their 9/3/4 memo.
- 4- The Academy will comment on the aggregation versus seriatim issue.
- 5- Comment letter from AIG regarding the form of guideline.

The goal is to iron out any remaining issues so that VA CARVM may be exposed as a guideline at the December NAIC meeting in New Orleans.

Tim Gaynor, FSA, MAAA

6 November 2004

