

On Thursday, October 7, 2004, the Life and Health Actuarial Task Force (LHATF) had a conference call to discuss the current status of the C-3 Phase II Work and Variable Annuity Reserves Actuarial Guideline. The agenda was:

1. Update from the AAA VARWG (AAavar10-07)
2. Update from Dennis Lauzon on the Standard Scenario (lauz1001)
3. Request from the Statutory Accounting Principles WG (9-04 sapwg 2n\_06\_04-17\_embedded\_options)
4. Objectives for the LHATF Dec. 2004 meeting in New Orleans

Leslie Jones of North Carolina led the call.

#### AAA VARWG update (Tom Campbell)

- 1- The most recent document (aaavar-10-07-04.doc) is a preview of the changes that are being proposed to the September version.
  - a. no major changes
  - b. mostly fine tuning of language to be consistent with RBC
- 2- Changes include:
  - a. updates to the discussion of principles
  - b. changes to the definition of prudent best estimates
  - c. appendix 7 has an update on modeling of hedges
  - d. reinsurance must meet risk transfer requirements
  - e. work shall follow the principles
  - f. certification requirements have changed
- 3- There are no changes due to any of NY recommendations.
- 4- There are no changes to the standard scenario.
- 5- Additional changes may be made if the RBC proposal changes in reaction to the comment period (ends 10/26/04).
- 6- Only final language changes and RBC updates will occur before the 11/10/04 call.
- 7- One regulator expressed concern about item 4 in the scope section. The phrase "all other products that contain guarantees similar in nature" should be clarified.
- 8- Bob Brown explained that the footnotes should let you know what we mean. Essentially, variable life should not be included nor should policy continuation guarantees.
- 9- It was agreed that additional language would be considered.

#### Standard Scenario update (Dennis Lauzon)

- 1- There are two changes in 10/1/04 version
  - a. The standard scenario amount will be added to the guideline 33 reserve that excludes any partial withdrawals.
  - b. There will be an additional requirement to do the standard scenario reserves twice:



- i. One calculation will be done using the current discount rate.
    - ii. One calculation will be done using the applicable federal tax rate in the year of contract issue.
  - c. The standard scenario result will be the higher of these reserves.
  - d. It is believed that this additional test will satisfy any tax concerns.
- 2- Additional comparisons of the modeling with the standard scenario results were also included.
- 3- Dennis raised the issue of whether or not to include revenue sharing in the modeling (mutual fund companies returning some of the asset fees to the insurer).
  - a. Including those revenues in the flow seems to go against statutory reporting.
  - b. NY suggests that revenue sharing should not be considered
    - i. If it is not removed, it should only be allowed if guaranteed.
    - ii. Revenues should be net of expenses.
- 4- Others countered that the reason you get the revenue is because you are writing the business.
- 5- RBC is included because they are looking at all moving parts to determine the total capital requirement.
- 6- NY's concern is that these cashflows are not related to the policies.
- 7- Dennis will put something together for the task force to review at the next call. He feels that revenue sharing should not be included for RBC as well.
- 8- Connecticut will continue to be against allowing revenue sharing to be included. Concludes it is not a minor issue.
- 9- Overall, on a seriatim basis, the modeling results are similar to the standard scenario results. The troublesome issue is aggregation.
  - a. When the modeled results are aggregated, the standard scenario results are significantly higher.
  - b. Most in favor of VA CARVM are concerned that the standard scenario may overwhelm the modeled reserves and the RBC.
  - c. The Academy is looking at ways to aggregate the standard scenario. Tom Campbell may come back with some recommendations.
- 10-Bill Carmello of NY said that for a given policy the reserve could work out to be less than the cash value. "Let's just go back to square one." (Certainly a tense moment.)
- 11-Much conversation ensued. Most arguing that aggregation is necessary to wipe out redundancy.
- 12-NY says that the standard scenario is not conservative and it will not support any aggregation of the standard scenario results.
- 13-The debate was interrupted, but will certainly be revisited at the next call.



## Request from the Statutory Accounting Principles WG

- 1- May need to provide clarification of accounting and reporting for the new proposed reserve requirements.
- 2- Looking for volunteers to lead the investigations.
- 3- One member asked if we should even go forward. Seems like we are pretty far apart on some issues.
- 4- Larry Gorski suggested that things would get worked out.

## Timing – (Leslie Jones)

- 1- Can we expose at the next call?
- 2- Could this be adopted in March or June of 2005 and still apply for December 2005?
- 3- Current position on 6 issues raised in Anchorage are:
  - a. Should the proposal be a guideline or something else => guideline
  - b. Should it apply to all inforce => yes
  - c. Should there be a phase in => yes 3 years
  - d. Should there be a provision to dampen volatility => no
  - e. What mortality should be used for the alternative methodology => 65% of MGDB (NY recommends 85%)
  - f. What about confidentiality status => covered by Standard Valuation Law
- 4- Do the Anchorage issues require further discussion?
- 5- “Similar in nature”, revenue sharing, and the standard scenario need more debate.

The next call is scheduled for 11/10/04. Outstanding issue will be discussed at that time.

Tim Gaynor, FSA, MAAA

11 October 2004

