

On Wednesday, November 10, the Life and Health Actuarial Task Force held a conference call to discuss the development of Actuarial Guideline VACARVM - CARVM FOR VARIABLE ANNUITIES REDEFINED.

The following states were represented: NE, AL, AK, FL, MN, NM, NY, OH, PA, TX, UT, CA, IL, NC, VA, CN, AR, SC, MO, District of Columbia.

Several interested parties also participated.

The agenda for the call:

Discuss the update from the AAA - Latest suggestions for changes to the exposure document (AAAv1110.doc) and comments on revenue sharing (AAAv1101.doc).
Review of items in need of further discussion and resolution (end of AAAv1110.doc; lau0903B.doc).

Plan for the LHATF meeting in New Orleans (8:00 a.m. - 9:45 a.m. on Thursday, Dec. 2 is allocated to this topic).

The Academy discussed its most recent version of the proposal (AAAv1110.doc). A recommendation will be sent to LHATF by 11/19/04. The last 2 pages has an issues list.

The Academy briefly reviewed the list of 13 issues. 3 issues received further discussion: Scope - page 4 of the guideline has been modified to address concerns about the scope. The main point was to be clear about what products and features are being covered. Everyone seemed OK with the clarifications.

Hedging – there were some changes in the language of the guideline to be more consistent with the RBC proposal. Again, there was little discussion.

Standard Scenario

The analysis subgroup has done some testing.

Concern is that the standard scenario is generating results that are greater than the total capital requirements (the RBC 90 CTE level) in some situations.

The subgroup has modified assumptions for M&E charges, but the standard scenario is still larger in some circumstances.

An exhibit of the results will be presented in December.

The issue is that the standard scenario reserves are calculated seriatim while the proposed reserve requirement calculates reserves in aggregate.

The Academy's concern is that if the standard scenario is driving the results, people will spend little time with the models.

New York will be providing a cleaned up version of the standard scenario that will be included in the December proposal. Additionally, NY specifically addressed the aggregation issue. The exchange is paraphrased as follows:



NY: The Academy has a problem with the standard scenario. "Has anyone taken a step back to look at the standard scenario." The assumptions are not that severe, so why should it be driving the results.

Academy: The assumptions are not the issue. It's the aggregation.

NY: A funding approach is being proposed. A recent FASB document says that if you are trying to calculate fair value or a market value you should look at the policyholders' assets first. So cash value should be a floor. When we do C3 phase 2, we do not really put a floor on each contract. Policies are allowed to offset. The problem is that if equities go down, you need to put up money for the revenues you were assuming and the additional benefits you will now be required paid.

Academy: To be clear, the proposed method does have an aggregate cash surrender floor not a policy level cash surrender floor.

ACLI is supportive of the concept of a standard scenario, but are concerned about the results. The standard scenario was supposed to provide assurance. Now, it's driving the reserve standard.

Academy: Perhaps we could update the models, and look at seriatim on the base reserves and aggregate reserves on the additional piece. To what extent is LHATF willing to accept a standard scenario that is not 100% seriatim?

NY: The standard scenario is still modest. Under the standard scenario, reserves are cash value plus a reserve for the minimum benefits. Companies should not be able to hold less. The only conclusion can be that the assumptions used thus far in the modeling must be weak. NY expected that the standard scenario would not come into play. If there is a market correction, then the future revenues are not available.

Interested parties suggested that the risks should be measured on an aggregate basis.

NY: Bottom line is that NY will not support any weakening of the standard scenario. NY would be forced to pull out of the project.

Academy: This would be disappointing. Over two years ago we made it clear that the reserves would be looked at in aggregate. Thousands of hours would have been wasted because of a change in direction late in the project.

NY: This project has not been a waste of time, because the modeling approach would do a better job with path dependent benefits (i.e. result in larger reserves).

Academy: Companies would not spend the time modeling.



NY: If calibration points are corrected, maybe the modeled results will go up.

Texas: What is the ACLI's position for aggregation and tax reserves?

ACLI: Tax law requires seriatim. It remains to be seen if a combination of aggregation and seriatim could be done.

Academy: We are spending a lot of time on the standard scenario. This is taking away from other things. What should the priority be?

SC decided that the aggregation issue should be discussed off-line prior to the December meeting.

With 5 minutes remaining in the call the following agenda was established for the New Orleans meeting December 2nd.

The Academy's recommendation
Revenue sharing and the definition of prudent best estimate
The standard scenario
Price Earnings ratio and calibration points
NY stalemate
Oversight issues

The Academy's final recommendation will be sent out next week, including changes for revenue sharing.

New Mexico: "How will we deal with New York's line in the sand?" It seems that more information will not change New York's position on aggregation." NY agreed.

Perhaps some sort of compromise can be reached off-line.

Tim Gaynor, FSA, MAAA

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