

Actuarial Guideline XXXVIII (AXXX)

The call included regulators from 20 states and almost 40 interested parties.

Bill Carmello (NY) provided a redraft of the Guideline. His version eliminates the steps of product design 8 and replaces them with a method that recalculates minimum gross premiums at each valuation date. The initially determined segment lengths would not change. This is an attempt to eliminate design abuses that minimize reserves.

Sheldon Summers (CA) believes that in addition to solvency concerns it is important to achieve consistent reserve treatment among various product designs.

Alan Elstein (CT) stated that a change to the guideline is needed to address lapse-supported products, low cash values and consequently low reserves on whole life-type products and minimization of reserves via offshore reinsurance.

Other regulators supported changing the Guideline; some considered asset adequacy analysis for these products alone as a possibility.

Larry Gorski submitted comments reflecting his personal views. He stated that 2001 CSO is not a panacea. It seems to be redundant overall and does not reflect the state of underwriting today. He is also averse to short-term tinkering as a solution.

Gorski recommended that states ask for an asset adequacy analysis to test secondary guarantee reserves in specific situations as an interim solution, and that LHATF work with the AAA Life Valuation Subcommittee to develop a long-term solution. That Subcommittee is considering a "C3-Phase 2" approach and specific asset adequacy analysis requirements for products with secondary guarantees. Tax reserve issues would be addressed in the long-term solution.

There still is lack of agreement among regulators about changing the Guideline in the short-term versus aiming at a long-term solution. LHATF is thus soliciting comments about the Carmello and Gorski proposals.

Finally, Northwestern Mutual announced that it had submitted this issue to the Emerging Issues Task Force and endorsed the New York proposal as a good starting point.

Discussion will continue at the September LHATF meeting.

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