

Actuarial Guideline XXXVIII (AXXX)

The purpose of the call was to discuss potential abuses of AG XXXVIII. Reflecting the heightened interest in this topic, 15 states participated and at least 35 entities of interested parties (many with multiple people) listened to the call.

Prior to the call, NAIC distributed a letter from Northwestern Mutual (NWM) and a letter from Guardian, both of which discussed perceived abuses of AXXX.

Mark Peavy (NAIC) began with a brief history of XXX and AXXX from 1988 to the present. Chair Leslie Jones (SC) then opened the discussion by stating that perhaps these abuses are covered under the “common sense and professional responsibility” requirement of AXXX. She and the other regulators wanted concrete examples of policy design and reserve practices for their analysis.

Then representatives of NWM and Guardian discussed their letters. The issue is shadow accounts with excessive loads. Loads can be designed to minimize the ratio in Step 4 of Example 8 of AXXX, which in turn minimizes total reserves. Both NWM and Guardian presented examples from a recent (unnamed) seminar comparing a specified premium design to a shadow fund with excess loads. At attained age 95, the specified premium plan had a reserve of \$825 per \$1,000, but the shadow account plan had a reserve of \$450.

The NWM representative stated that there is no need to change AXXX because it is clear enough. It just needs to be enforced. Guardian’s representative was more emphatic, stating that the shadow account example is “a flat-out abuse” and that he is “embarrassed for the profession.”

Mike Boerner (TX) observed that there are other ways to minimize the Step 4 ratio, and asked if either company had concrete instances of any such design. Neither NWM nor Guardian did, and the question was then asked of all the interested parties, none of whom volunteered an answer.

Because regulators are seeking specific examples from products actually being sold, LHATF intends to have a draft survey available for discussion at its June meeting in San Francisco. The survey would be sent to companies to solicit descriptions of unusual designs that might be attempts to get around the requirements of AXXX.

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